Senate Bill No. 519

CHAPTER 7

An act to amend Sections 17039, 17053.47, 17062, 17276.2, 18510, 19023, 19024, 19025, 19136.3, 19147, 19149, 19184, 19280, 23036, 23456, 23622.8, 23802, 24416.2, and 24918 of, to add Sections 17088.5, 17088.6, 17132.6, 17207.4, 17559, 17760.5, 18036.5, 18037.3, 18038.5, 18155.5, 18572, 19109, 24347.4, 24652.5, 24661.5, 24871.5, 24872.4, 24872.5, 24872.7, 24875.5, and 24949.1 to, to repeal Sections 17731.5, 19365, 23813, and 24954 of, and to repeal and amend Section 23800.5 of, the Revenue and Taxation Code, to amend Sections 110 and 112 of Chapter 605 of the Statutes of 1997, to amend Section 30 of Chapter 611 of the Statutes of 1997, and to add Section 19 to Chapter 609 of the Statutes of 1997, relating to taxation, to take effect immediately, tax levy.

[Approved by Governor March 13, 1998. Filed with Secretary of State March 14, 1998.]

LEGISLATIVE COUNSEL'S DIGEST

SB 519, Lockyer. Income and bank and corporation taxes: federal conformity and cleanup legislation.

The Personal Income Tax Law and the Bank and Corporation Tax Law allow a taxpayer to claim certain tax incentives for activities conducted within a targeted tax area, as defined, including a targeted tax area sales or use tax credit and a targeted tax area hiring credit.

This bill would, under both laws, allow both of those credits to reduce the tax below the tentative minimum tax, and allow a specified net operating loss deduction with respect to a taxpayer engaged in the conduct of a qualified business, as defined, within a targeted tax area.

The Personal Income Tax Law imposes, in specified conformity to federal income tax laws, a tax equal to the excess of the tentative minimum tax, as defined, over the regular tax.

This bill would change specified dollar exemption amounts, clarify certain terms pertaining to a qualified taxpayer, and provide that federal income tax provisions relating to the treatment of incentive stock options be modified, as provided.

The Personal Income Tax Law incorporates by reference various provisions of federal income tax laws, with specified exceptions and modifications.

This bill would provide additional conformity, with exceptions and modifications, to recently enacted federal income tax laws relating to, among other things, repeal of the mutual fund 30% rule, FASIT corrections, alternative minimum tax with respect to certain

installment sales, appraisal for certain disaster losses, abatement of interest in presidentially declared disaster areas, rollover of gain on sale of qualified stock, termination of suspense accounts for family farm corporations, repeal of short-short rule for mutual funds and real estate investment trusts, taxation of earnings on funeral trusts, and survivor benefits for slain public safety officers.

Existing law pertaining to the administration of the Personal Income Tax Law and the Bank and Corporation Tax Law imposes specified filing requirements and penalties.

This bill would clarify that taxpayers whose only income for 1997 is from the excludable gain on the sale of a personal residence are subject to specified filing requirements. This bill would reinstate for 1997 the penalty for failure to file medical savings account reports. This bill would also make technical and clarifying changes to those administrative provisions.

This bill would, under the Personal Income Tax Law or the Bank and Corporation Tax Law, or both, delete duplicate sections, clarify certain operative dates, and make other technical and clarifying changes, as provided.

This bill would take effect immediately as a tax levy, but specified provisions would become operative as provided.

The people of the State of California do enact as follows:

SECTION 1. Section 17039 of the Revenue and Taxation Code is amended to read:

17039. (a) Notwithstanding any provision in this part to the contrary, for the purposes of computing tax credits, the term ‘‘net tax’’ means the tax imposed under either Section 17041 or 17048 plus the tax imposed under Section 17504 (relating to lump-sum distributions) less the credits allowed by Section 17054 (relating to personal exemption credits) and any amount imposed under paragraph (1) of subdivision (d) and paragraph (1) of subdivision (e) of Section 17560. Notwithstanding the preceding sentence, the ‘‘net tax’’ shall not be less than the tax imposed under Section 17504 (relating to the separate tax on lump-sum distributions), if any. Credits shall be allowed against ‘‘net tax’’ in the following order:

(1) Credits that do not contain carryover or refundable provisions, except those described in paragraphs (4) and (5).

(2) Credits that contain carryover provisions but do not contain refundable provisions.

(3) Credits that contain both carryover and refundable provisions.

(4) The minimum tax credit allowed by Section 17063 (relating to the alternative minimum tax).

(5) Credits for taxes paid to other states allowed by Chapter 12 (commencing with Section 18001).

(6) Credits that contain refundable provisions but do not contain carryover provisions.

The order within each paragraph shall be determined by the Franchise Tax Board.

(b) Notwithstanding the provisions of Sections 17053.5 (relating to the renter's credit), 17061 (relating to refunds pursuant to the Unemployment Insurance Code), and 19002 (relating to tax withholding), the credits provided in those sections shall be allowed in the order provided in paragraph (6) of subdivision (a).

(c) (1) Notwithstanding any other provision of this part, no tax credit shall reduce the tax imposed under Section 17041 or 17048 plus the tax imposed under Section 17504 (relating to the separate tax on lump-sum distributions) below the tentative minimum tax, as defined by Section 17062, except the following credits, but only after allowance of the credit allowed by Section 17063:

(A) The credit allowed by former Section 17052.4 (relating to solar energy).

(B) The credit allowed by former Section 17052.5 (relating to solar energy).

(C) The credit allowed by Section 17052.5 (relating to solar energy).

(D) The credit allowed by Section 17052.12 (relating to research expenses).

(E) The credit allowed by former Section 17052.13 (relating to sales and use tax credit).

(F) The credit allowed by Section 17052.15 (relating to Los Angeles Revitalization Zone sales tax credit).

(G) The credit allowed by Section 17053.5 (relating to the renter's credit).

(H) The credit allowed by former Section 17053.8 (relating to enterprise zone hiring credit).

(I) The credit allowed by Section 17053.10 (relating to Los Angeles Revitalization Zone hiring credit).

(J) The credit allowed by former Section 17053.11 (relating to program area hiring credit).

(K) For each taxable year beginning on or after January 1, 1994, the credit allowed by Section 17053.17 (relating to Los Angeles Revitalization Zone hiring credit).

(L) The credit allowed by Section 17053.33 (relating to targeted tax area sales or use tax credit).

(M) The credit allowed by Section 17053.34 (relating to targeted tax area hiring credit).

(N) The credit allowed by Section 17053.49 (relating to qualified property).

(O) The credit allowed by Section 17053.70 (relating to enterprise zone sales or use tax credit).

(P) The credit allowed by Section 17053.74 (relating to enterprise zone hiring credit).

(Q) The credit allowed by Section 17057 (relating to clinical testing expenses).

(R) The credit allowed by Section 17058 (relating to low-income housing).

(S) The credit allowed by Section 17061 (relating to refunds pursuant to the Unemployment Insurance Code).

(T) Credits for taxes paid to other states allowed by Chapter 12 (commencing with Section 18001).

(U) The credit allowed by Section 19002 (relating to tax withholding).

(2) Any credit that is partially or totally denied under paragraph (1) shall be allowed to be carried over and applied to the net tax in succeeding taxable years, if the provisions relating to that credit include a provision to allow a carryover when that credit exceeds the net tax.

(d) Unless otherwise provided, any remaining carryover of a credit allowed by a section that has been repealed or made inoperative shall continue to be allowed to be carried over under the provisions of that section as it read immediately prior to being repealed or becoming inoperative.

(e) (1) Unless otherwise provided, if two or more taxpayers (other than husband and wife) share in costs that would be eligible for a tax credit allowed under this part, each taxpayer shall be eligible to receive the tax credit in proportion to his or her respective share of the costs paid or incurred.

(2) In the case of a partnership, the credit shall be allocated among the partners pursuant to a written partnership agreement in accordance with Section 704 of the Internal Revenue Code, relating to partner's distributive share.

(3) In the case of a husband and wife who file separate returns, the credit may be taken by either or equally divided between them.

(f) Unless otherwise provided, in the case of a partnership, any credit allowed by this part shall be computed at the partnership level, and any limitation on the expenses qualifying for the credit or limitation upon the amount of the credit shall be applied to the partnership and to each partner.

(g) (1) With respect to any taxpayer that directly or indirectly owns an interest in a business entity that is disregarded for tax purposes pursuant to Section 23038 and any regulations thereunder, the amount of any credit or credit carryforward allowable for any taxable year attributable to the disregarded business entity shall be limited in accordance with paragraphs (2) and (3).

(2) The amount of any credit otherwise allowed under this part, including any credit carryover from prior years, that may be applied to reduce the taxpayer's ''net tax,'' as defined in subdivision (a), for

the taxable year shall be limited to an amount equal to the excess of the taxpayer's regular tax (as defined in Section 17062), determined by including income attributable to the disregarded business entity that generated the credit or credit carryover, over the taxpayer's regular tax (as defined in Section 17062), determined by excluding the income attributable to that disregarded business entity. No credit shall be allowed if the taxpayer's regular tax (as defined in Section 17062), determined by including the income attributable to the disregarded business entity, is less than the taxpayer's regular tax (as defined in Section 17062), determined by excluding the income attributable to the disregarded business entity.

(3) If the amount of a credit allowed pursuant to the section establishing the credit exceeds the amount allowable under this subdivision in any taxable year, the excess amount may be carried over to subsequent taxable years pursuant to subdivisions (c) and (d).

SEC. 1.5. Section 17053.47 of the Revenue and Taxation Code is amended to read:

17053.47. (a) For each taxable year beginning on or after January 1, 1998, there shall be allowed a credit against the ''net tax'' (as defined in Section 17039) to a qualified taxpayer for hiring a qualified disadvantaged individual during the taxable year for employment in the Manufacturing Enhancement Area. The credit shall be equal to the sum of each of the following:

(1) Fifty percent of the qualified wages in the first year of employment.

(2) Forty percent of the qualified wages in the second year of employment.

(3) Thirty percent of the qualified wages in the third year of employment.

(4) Twenty percent of the qualified wages in the fourth year of employment.

(5) Ten percent of the qualified wages in the fifth year of employment.

(b) For purposes of this section:

(1) ''Qualified wages'' means:

(A) That portion of wages paid or incurred by the qualified taxpayer during the taxable year to qualified disadvantaged individuals that does not exceed 150 percent of the minimum wage.

(B) The total amount of qualified wages which may be taken into account for purposes of claiming the credit allowed under this section shall not exceed two million dollars ($2,000,000) per taxable year.

(C) Wages received during the 60-month period beginning with the day the qualified disadvantaged individual commences employment with the qualified taxpayer.

(D) Qualified wages do not include any wages paid or incurred by the qualified taxpayer on or after the Manufacturing Enhancement

Area expiration date. However, wages paid or incurred with respect to qualified employees who are employed by the qualified taxpayer within the Manufacturing Enhancement Area within the 60-month period prior to the Manufacturing Enhancement Area expiration date shall continue to qualify for the credit under this section after the Manufacturing Enhancement Area expiration date, in accordance with all provisions of this section applied as if the Manufacturing Enhancement Area designation were still in existence and binding.

(2) ''Minimum wage'' means the wage established by the Industrial Welfare Commission as provided for in Chapter 1 (commencing with Section 1171) of Part 4 of Division 2 of the Labor Code.

(3) ''Manufacturing Enhancement Area'' means an area designated pursuant to Section 7073.8 of the Government Code according to the procedures of Chapter 12.8 (commencing with Section 7070) of Division 7 of Title 1 of the Government Code.

(4) ''Manufacturing Enhancement Area expiration date'' means the date the Manufacturing Enhancement Area designation expires, is no longer binding, or becomes inoperative.

(5) ''Qualified disadvantaged individual'' means an individual who satisfies all of the following requirements:

(A) (i) At least 90 percent of whose services for the qualified taxpayer during the taxable year are directly related to the conduct of the qualified taxpayer's trade or business located in a Manufacturing Enhancement Area.

(ii) Who performs at least 50 percent of his or her services for the qualified taxpayer during the taxable year in the Manufacturing Enhancement Area.

(B) Who is hired by the qualified taxpayer after the designation of the area as a Manufacturing Enhancement Area in which the individual's services were primarily performed.

(C) Who is any of the following immediately preceding the individual's commencement of employment with the qualified taxpayer:

(i) An individual who has been determined eligible for services under the federal Job Training Partnership Act (29 U.S.C. Sec. 1501 et seq.).

(ii) Any voluntary or mandatory registrant under the Greater Avenues for Independence Act of 1985 as provided pursuant to Article 3.2 (commencing with Section 11320) of Chapter 2 of Part 3 of Division 9 of the Welfare and Institutions Code.

(iii) Any individual who has been certified eligible by the Employment Development Department under the federal Targeted Jobs Tax Credit Program, whether or not this program is in effect.

(6) ''Qualified taxpayer'' means any taxpayer engaged in a trade or business within a Manufacturing Enhancement Area designated

pursuant to Section 7073.8 of the Government Code and who meets both of the following requirements:

(A) Is engaged in those lines of business described in Codes 2011 to 3999, inclusive, of the Standard Industrial Classification (SIC) Manual published by the United States Office of Management and Budget, 1987 edition.

(B) At least 50 percent of the qualified taxpayer's work force hired after the designation of the Manufacturing Enhancement Area is composed of individuals who, at the time of hire, are residents of the county in which the Manufacturing Enhancement Area is located.

(C) Of this percentage of local hires, at least 30 percent shall be qualified disadvantaged individuals.

(c) (1) For purposes of this section, all of the following apply:

(A) All employees of trades or businesses that are under common control shall be treated as employed by a single qualified taxpayer.

(B) The credit (if any) allowable by this section with respect to each trade or business shall be determined by reference to its proportionate share of the expense of the qualified wages giving rise to the credit and shall be allocated in that manner.

(C) Principles that apply in the case of controlled groups of corporations, as specified in subdivision (d) of Section 23622.7, shall apply with respect to determining employment.

(2) If a qualified taxpayer acquires the major portion of a trade or business of another employer (hereinafter in this paragraph referred to as the ''predecessor'') or the major portion of a separate unit of a trade or business of a predecessor, then, for purposes of applying this section (other than subdivision (d)) for any calendar year ending after that acquisition, the employment relationship between a qualified disadvantaged individual and a qualified taxpayer shall not be treated as terminated if the qualified disadvantaged individual continues to be employed in that trade or business.

(d) (1) If the employment of any qualified disadvantaged individual, with respect to whom qualified wages are taken into account under subdivision (b) is terminated by the qualified taxpayer at any time during the first 270 days of that employment (whether or not consecutive) or before the close of the 270th calendar day after the day in which that qualified disadvantaged individual completes 90 days of employment with the qualified taxpayer, the tax imposed by this part for the taxable year in which that employment is terminated shall be increased by an amount equal to the credit allowed under subdivision (a) for that taxable year and all prior taxable years attributable to qualified wages paid or incurred with respect to that qualified disadvantaged individual.

(2) (A) Paragraph (1) does not apply to any of the following:

(i) A termination of employment of a qualified disadvantaged individual who voluntarily leaves the employment of the qualified taxpayer.

(ii) A termination of employment of a qualified disadvantaged individual who, before the close of the period referred to in paragraph (1), becomes disabled to perform the services of that employment, unless that disability is removed before the close of that period and the taxpayer fails to offer reemployment to that individual.

(iii) A termination of employment of a qualified disadvantaged individual, if it is determined under the applicable employment compensation laws that the termination was due to the misconduct of that individual.

(iv) A termination of employment of a qualified disadvantaged individual due to a substantial reduction in the trade or business operations of the qualified taxpayer.

(v) A termination of employment of a qualified disadvantaged individual, if that individual is replaced by other qualified disadvantaged individuals so as to create a net increase in both the number of employees and the hours of employment.

(B) For purposes of paragraph (1), the employment relationship between the qualified taxpayer and a qualified disadvantaged individual shall not be treated as terminated by reason of a mere change in the form of conducting the trade or business of the qualified taxpayer, if the qualified disadvantaged individual continues to be employed in that trade or business and the qualified taxpayer retains a substantial interest in that trade or business.

(3) Any increase in tax under paragraph (1) shall not be treated as tax imposed by this part for purposes of determining the amount of any credit allowable under this part.

(e) In the case of an estate or trust, both of the following apply:

(1) The qualified wages for any taxable year shall be apportioned between the estate or trust and the beneficiaries on the basis of the income of the estate or trust allocable to each.

(2) Any beneficiary to whom any qualified wages have been apportioned under paragraph (1) shall be treated (for purposes of this part) as the employer with respect to those wages.

(f) The credit shall be reduced by the credit allowed under Section 17053.7. The credit shall also be reduced by the federal credit allowed under Section 51 of the Internal Revenue Code.

In addition, any deduction otherwise allowed under this part for the wages or salaries paid or incurred by the qualified taxpayer upon which the credit is based shall be reduced by the amount of the credit, prior to any reduction required by subdivision (g) or (h).

(g) In the case where the credit otherwise allowed under this section exceeds the ‘‘net tax’’ for the taxable year, that portion of the credit that exceeds the ‘‘net tax’’ may be carried over and added to the credit, if any, in succeeding years, until the credit is exhausted. The credit shall be applied first to the earliest taxable years possible.

(h) (1) The amount of credit otherwise allowed under this section, including prior year credit carryovers, that may reduce the ‘‘net tax’’ for the taxable year shall not exceed the amount of tax that would be imposed on the qualified taxpayer’s business income attributed to a Manufacturing Enhancement Area determined as if that attributed income represented all of the net income of the qualified taxpayer subject to tax under this part.

(2) The amount of attributed income described in paragraph (1) shall be determined in accordance with the provisions of Chapter 17 (commencing with Section 25101) of Part 11, modified for purposes of this section as follows:

(A) Income shall be apportioned to a Manufacturing Enhancement Area by multiplying total business income by a fraction, the numerator of which is the property factor plus the payroll factor, and the denominator of which is two.

(B) ‘‘The Manufacturing Enhancement Area’’ shall be substituted for ‘‘this state.’’

(3) The portion of any credit remaining, if any, after application of this subdivision, shall be carried over to succeeding taxable years, as if it were an amount exceeding the ‘‘net tax’’ for the taxable year, as provided in subdivision (g).

(i) If the taxpayer is allowed a credit pursuant to this section for qualified wages paid or incurred, only one credit shall be allowed to the taxpayer under this part with respect to any wage consisting in whole or in part of those qualified wages.

SEC. 2. Section 17062 of the Revenue and Taxation Code is amended to read:

17062. (a) In addition to the other taxes imposed by this part, there is hereby imposed for each taxable year, a tax equal to the excess, if any, of—

(1) The tentative minimum tax for the taxable year, over

(2) The regular tax for the taxable year.

(b) For purposes of this chapter, each of the following shall apply:

(1) The tentative minimum tax shall be computed in accordance with Sections 55 to 59, inclusive, of the Internal Revenue Code, except as otherwise provided in this part.

(2) The regular tax shall be the amount of tax imposed by Section 17041 or 17048, before reduction for any credits against the tax, less any amount imposed under paragraph (1) of subdivision (d) and paragraph (1) of subdivision (e) of Section 17560.

(3) (A) The provisions of Section 55(b)(1) of the Internal Revenue Code shall be modified to provide that the tentative minimum tax for the taxable year shall be equal to the following percent of so much of the alternative minimum taxable income for the taxable year as exceeds the exemption amount, before reduction for any credits against the tax:

(i) For any taxable year beginning on or after January 1, 1991, and before January 1, 1996, 8.5 percent.

(ii) For any taxable year beginning on or after January 1, 1996, 7 percent.

(B) In the case of a nonresident or part-year resident, the tentative minimum tax shall be computed as if the nonresident or part-year resident were a resident for the entire year multiplied by the ratio of California adjusted gross income (as modified for purposes of this chapter) to total adjusted gross income from all sources (as modified for purposes of this chapter). For purposes of computing the tax under subparagraph (A) and gross income from all sources, the net operating loss deduction provided in Section 56(d) of the Internal Revenue Code shall be computed as if the taxpayer were a resident for all prior years.

(C) For purposes of this section, the term ''California adjusted gross income'' includes each of the following:

(i) For any period during which the taxpayer was a resident of this state (as defined by Section 17014), all items of adjusted gross income (as modified for purposes of this chapter), regardless of source.

(ii) For any period during which the taxpayer was not a resident of this state, only those items of adjusted gross income (as modified for purposes of this chapter) which were derived from sources within this state, determined in accordance with Chapter 11 (commencing with Section 17951).

(4) The provisions of Section 55(b)(2) of the Internal Revenue Code, relating to alternative minimum taxable income, shall be modified to provide that alternative minimum taxable income shall not include the income, adjustments, and items of tax preference attributable to any trade or business of a qualified taxpayer.

(A) For purposes of this paragraph, ''qualified taxpayer'' means a taxpayer who meets both of the following:

(i) Is the owner of, or has an ownership interest in, a trade or business.

(ii) Has aggregate gross receipts, less returns and allowances, of less than one million dollars ($1,000,000) during the taxable year from all trades or businesses of which the taxpayer is the owner or has an ownership interest, in the amount of that taxpayer's proportionate interest in each trade or business.

(B) For purposes of this paragraph, ''aggregate gross receipts, less returns and allowances'' means the sum of the gross receipts of the trades or businesses which the taxpayer owns and the proportionate interest of the gross receipts of the trades or businesses which the taxpayer owns and of passthrough entities in which the taxpayer holds an interest.

(C) For purposes of this paragraph, ''gross receipts, less returns and allowances'' means the sum of the gross receipts from the production of business income, as defined in subdivision (a) of

Section 25120, and the gross receipts from the production of nonbusiness income, as defined in subdivision (d) of Section 25120.

(D) For purposes of this paragraph, ‘‘proportionate interest’’ means:

(i) In the case of a passthrough entity which reports a profit for the taxable or income year, the taxpayer’s profit interest in the entity at the end of the taxpayer’s taxable year.

(ii) In the case of a passthrough entity which reports a loss for the taxable or income year, the taxpayer’s loss interest in the entity at the end of the taxpayer’s taxable year.

(iii) In the case of a passthrough entity which is sold or liquidates during the taxable or income year, the taxpayer’s capital account interest in the entity at the time of the sale or liquidation.

(E) (i) For purposes of this paragraph, ‘‘proportionate interest’’ includes an interest in a passthrough entity.

(ii) For purposes of this paragraph, ‘‘passthrough entity’’ means any of the following:

(I) A partnership, as defined by Section 17008.

(II) An S corporation, as provided in Chapter 4.5 (commencing with Section 23800) of Part 11.

(III) A regulated investment company, as provided in Section 24871.

(IV) A real estate investment trust, as provided in Section 24872.

(V) A real estate mortgage investment conduit, as provided in Section 24874.

(5) For taxable years beginning on or after January 1, 1998, Section 55(d)(1) of the Internal Revenue Code, relating to exemption amount for taxpayers other than corporations is modified, for purposes of this part, to provide the following exemption amounts in lieu of those contained therein:

(A) Fifty-seven thousand two hundred sixty dollars ($57,260) in the case of either of the following:

(i) A joint return.

(ii) A surviving spouse.

(B) Forty-two thousand nine hundred forty-five dollars ($42,945) in the case of an individual who is both of the following:

(i) Not a married individual.

(ii) Not a surviving spouse.

(C) Twenty-eight thousand six hundred thirty dollars ($28,630) in the case of either of the following:

(i) A married individual who files a separate return.

(ii) An estate or trust.

(6) For taxable years beginning on or after January 1, 1998, Section 55(d)(3) of the Internal Revenue Code, relating to the phaseout of exemption amount for taxpayers other than corporations is modified, for purposes of this part, to provide the following phaseout of exemption amounts in lieu of those contained therein:

(A) Two hundred fourteen thousand seven hundred twenty-five dollars ($214,725) in the case of a taxpayer described in subparagraph (A) of paragraph (5).

(B) One hundred sixty-one thousand forty-four dollars ($161,044) in the case of a taxpayer described in subparagraph (B) of paragraph (5).

(C) One hundred seven thousand three hundred sixty-two dollars ($107,362) in the case of a taxpayer described in subparagraph (C) of paragraph (5).

(7) For each taxable year beginning on or after January 1, 1999, the Franchise Tax Board shall recompute the exemption amounts prescribed in paragraph (5) and the phaseout of exemption amounts prescribed in paragraph (6). Those computations shall be made as follows:

(A) The California Department of Industrial Relations shall transmit annually to the Franchise Tax Board the percentage change in the California Consumer Price Index for all items from June of the prior calendar year to June of the current calendar year, no later than August 1 of the current calendar year.

(B) The Franchise Tax Board shall do both of the following:

(i) Compute an inflation adjustment factor by adding 100 percent to the percentage change figure that is furnished pursuant to subparagraph (A) and dividing the result by 100.

(ii) Multiply the preceding taxable year exemption amounts and the phaseout of exemption amounts by the inflation adjustment factor determined in clause (i) and round off the resulting products to the nearest one dollar ($1).

(c) (1) Section 56(a)(6) of the Internal Revenue Code, relating to installment sales of certain property, shall not apply to dispositions in taxable years beginning on or after January 1, 1997, with respect to dispositions occurring in taxable years beginning after December 31, 1987.

(2) Section 56(b)(1)(E) of the Internal Revenue Code, relating to standard deduction and deduction for personal exemptions not allowed, is modified, for purposes of this part, to deny the standard deduction allowed by Section 17073.5.

(3) Section 56(b)(3) of the Internal Revenue Code, relating to treatment of incentive stock options, shall be modified to additionally provide the following:

(A) Section 421 of the Internal Revenue Code shall not apply to the transfer of stock acquired pursuant to the exercise of a California qualified stock option under Section 17502.

(B) Section 422(c)(2) of the Internal Revenue Code shall apply in any case where the disposition and inclusion of a California qualified stock option for purposes of this chapter are within the same taxable year and that section shall not apply in any other case.

(C) The adjusted basis of any stock acquired by the exercise of a California qualified stock option shall be determined on the basis of the treatment prescribed by this paragraph.

(d) The provisions of Section 57(a)(5) of the Internal Revenue Code, relating to tax-exempt interest shall not apply.

(e) (1) Section 57(a) of the Internal Revenue Code, relating to items of tax preference, is modified to include as an item of tax preference the amount by which the deduction allowable under Section 170 of the Internal Revenue Code, relating to charitable contributions or gifts, or Section 642(c) of the Internal Revenue Code, relating to deduction for amounts paid or permanently set aside for a charitable purpose, would be reduced if all capital gain property were taken into account at its adjusted basis.

(2) For purposes of paragraph (1), the term ''capital gain property'' has the meaning given to that term by Section 170(b)(1)(C)(iv) of the Internal Revenue Code. That term shall not include any property to which an election under Section 170(b)(1)(C)(iii) of the Internal Revenue Code applies.

(f) Section 57(a) of the Internal Revenue Code, relating to items of tax preference, is modified to include as an item of tax preference an amount equal to one-half of the amount excluded from gross income for the taxable year under Section 18152.5.

(g) The provisions of Section 59(a) of the Internal Revenue Code, relating to the alternative minimum tax foreign tax credit, shall not apply.

SEC. 3. Section 17088.5 is added to the Revenue and Taxation Code, to read:

17088.5. (a) Section 851(b)(3) of the Internal Revenue Code shall not apply.

(b) This section shall apply in determining whether an entity qualifies as a regulated investment company for income years of that entity beginning after August 5, 1997.

SEC. 4. Section 17088.6 is added to the Revenue and Taxation Code, to read:

17088.6. (a) Section 856(c)(4) of the Internal Revenue Code shall not apply.

(b) (1) Section 856(c)(6)(G) of the Internal Revenue Code shall not apply and in lieu thereof paragraph (2) shall apply.

(2) Except to the extent provided by regulations of the Secretary of the Treasury under Section 856(c)(5)(G) of the Internal Revenue Code (as redesignated and amended by Public Law 105-34), both of the following shall be treated as income qualifying under Section 856(c)(2) of the Internal Revenue Code:

(A) Any payment to a real estate investment trust under an interest rate swap or cap agreement, option, futures contract, forward rate agreement, or any similar financial instrument, entered into by the trust in a transaction to reduce the interest rate risks with

respect to any indebtedness incurred or to be incurred by the trust to acquire or carry real estate assets.

(B) Any gain from the sale or other disposition of any such investment.

(c) This section shall apply in determining whether an entity qualifies as a real estate investment trust for income years of that entity beginning after August 5, 1997.

SEC. 5. Section 17132.6 is added to the Revenue and Taxation Code, to read:

17132.6. (a) (1) Section 101 of the Internal Revenue Code, relating to certain death benefits, is modified to additionally provide that gross income shall not include any amount paid as a survivor annuity on account of the death of a public safety officer (as that term is defined in Section 1204 of the Omnibus Crime Control and Safe Streets Act of 1968) killed in the line of duty—

(A) If that annuity is provided, under a governmental plan which meets the requirements of Section 401(a) of the Internal Revenue Code, to the spouse (or former spouse) of the public safety officer or to a child of that officer.

(B) To the extent that annuity is attributable to the officer's service as a public safety officer.

(2) Paragraph (1) shall not apply with respect to the death of any public safety officer if, as determined in accordance with the Omnibus Crime Control and Safe Streets Act of 1968—

(A) The death was caused by the intentional misconduct of the officer or by the officer's intention to bring about the officer's death.

(B) The officer was voluntarily intoxicated (as defined in Section 1204 of the Omnibus Crime Control and Safe Streets Act of 1968) at the time of death.

(C) The officer was performing that officer's duties in a grossly negligent manner at the time of death.

(D) The payment is to an individual whose actions were a substantial contributing factor to the death of the officer.

(b) This section shall apply to amounts received in taxable years beginning after December 31, 1996, with respect to individuals dying after December 31, 1996.

SEC. 6. Section 17207.4 is added to the Revenue and Taxation Code, to read:

17207.4. (a) Section 165(i) of the Internal Revenue Code is modified to additionally provide that an appraisal for the purpose of obtaining a loan of federal funds or a loan guarantee from the federal government as a result of a presidentially declared disaster, as defined by Section 1033(h)(3) of the Internal Revenue Code, may be used to establish the amount of any loss described in Section 165(i)(1) or (2) of the Internal Revenue Code to the extent provided in regulations or other guidance of the Secretary of the Treasury under

Section 165(i)(4) of the Internal Revenue Code, as added by Section 912 of Public Law 105-34.

(b) This section shall apply on and after August 5, 1997.

SEC. 7. Section 17276.2 of the Revenue and Taxation Code is amended to read:

17276.2. The term ''qualified taxpayer'' as used in Section 17276.1 means any of the following:

(a) A person or entity engaged in the conduct of a trade or business within an enterprise zone designated pursuant to Chapter 12.8 (commencing with Section 7070) of Division 7 of Title 1 of the Government Code.

(1) A net operating loss shall not be a net operating loss carryback to any taxable year and a net operating loss for any taxable year beginning on or after the date that the area in which the taxpayer conducts a trade or business is designated as an enterprise zone shall be a net operating loss carryover to each of the 15 taxable years following the taxable year of loss.

(2) For purposes of this subdivision:

(A) ''Net operating loss'' means the loss determined under Section 172 of the Internal Revenue Code, as modified by Section 17276.1, attributable to the taxpayer's business activities within the enterprise zone (as defined in Chapter 12.8 (commencing with Section 7070) of Division 7 of Title 1 of the Government Code) prior to the enterprise zone expiration date. That attributable loss shall be determined in accordance with Chapter 17 (commencing with Section 25101) of Part 11, modified for purposes of this section by substituting ''enterprise zone'' for ''this state.''

(B) A net operating loss carryover shall be a deduction only with respect to the taxpayer's business income attributable to the enterprise zone (as defined in Chapter 12.8 (commencing with Section 7070) of Division 7 of Title 1 of the Government Code) determined in accordance with Chapter 17 (commencing with Section 25101) of Part 11, modified for purposes of this section by substituting ''enterprise zone'' for ''this state.''

(C) If a loss carryover is allowable pursuant to this section for any taxable year after the enterprise zone designation has expired, the enterprise zone shall be deemed to remain in existence for purposes of computing the limitation set forth in subparagraph (B) and allowing a net operating loss deduction.

(D) ''Enterprise zone expiration date'' means the date the enterprise zone designation expires, is no longer binding, or becomes inoperative.

(b) A person or entity engaged in the conduct of a trade or business within the Los Angeles Revitalization Zone designated pursuant to Section 7102 of the Government Code.

(1) A net operating loss shall not be a net operating loss carryback for any taxable year, and a net operating loss for any taxable year

beginning on or after the date the area in which the taxpayer conducts a trade or business is designated the Los Angeles Revitalization Zone shall be a net operating loss carryover to each following taxable year that ends before the Los Angeles Revitalization Zone expiration date or to each of the 15 taxable years following the taxable year of loss, if longer.

(2) For the purposes of this subdivision:

(A) ''Net operating loss'' means the loss determined under Section 172 of the Internal Revenue Code, as modified by Section 17276.1, attributable to the taxpayer's business activities within the Los Angeles Revitalization Zone (as defined in Section 7102 of the Government Code) prior to the Los Angeles Revitalization Zone expiration date. The attributable loss shall be determined in accordance with Chapter 17 (commencing with Section 25101) of Part 11, modified as follows:

(i) Loss shall be apportioned to the Los Angeles Revitalization Zone by multiplying total loss from the business by a fraction, the numerator of which is the property factor plus the payroll factor, and the denominator of which is two.

(ii) ''The Los Angeles Revitalization Zone'' shall be substituted for ''this state.''

(B) A net operating loss carryover shall be a deduction only with respect to the taxpayer's business income attributable to the Los Angeles Revitalization Zone (as defined in Section 7102 of the Government Code) determined in accordance with paragraph (3).

(C) If a loss carryover is allowable pursuant to this section for any taxable year after the Los Angeles Revitalization Zone designation has expired, the Los Angeles Revitalization Zone shall be deemed to remain in existence for purposes of computing the limitation set forth in subparagraph (B) and allowing a net operating loss deduction.

(3) Attributable income shall be that portion of the taxpayer's California source business income which is apportioned to the Los Angeles Revitalization Zone. For that purpose, the taxpayer's business income attributable to sources in this state first shall be determined in accordance with Chapter 17 (commencing with Section 25101) of Part 11. That business income shall be further apportioned to the Los Angeles Revitalization Zone in accordance with Article 2 (commencing with Section 25120) of Chapter 17 of Part 11, modified as follows:

(A) Business income shall be apportioned to the Los Angeles Revitalization Zone by multiplying total California business income of the taxpayer by a fraction, the numerator of which is the property factor plus the payroll factor, and the denominator of which is two.

(B) The property factor is a fraction, the numerator of which is the average value of the taxpayer's real and tangible personal property owned or rented and used in the Los Angeles Revitalization Zone during the taxable year and the denominator of which is the average

value of all the taxpayer's real and tangible personal property owned or rented and used in this state during the taxable year.

(C) The payroll factor is a fraction, the numerator of which is the total amount paid by the taxpayer in the Los Angeles Revitalization Zone during the taxable year for compensation, and the denominator of which is the total compensation paid by the taxpayer in this state during the taxable year.

(4) ''Los Angeles Revitalization Zone expiration date'' means the date the Los Angeles Revitalization Zone designation expires, is repealed, or becomes inoperative pursuant to Section 7102, 7103, or 7104 of the Government Code.

(5) This subdivision shall be inoperative on the first day of the taxable year beginning on or after the determination date, and each taxable year thereafter, with respect to the taxpayer's business activities within a geographic area that is excluded from the map pursuant to Section 7102 of the Government Code, or an excluded area determined pursuant to Section 7104 of the Government Code. The determination date is the earlier of the first effective date of a determination under subdivision (c) of Section 7102 of the Government Code occurring after December 1, 1994, or the first effective date of an exclusion of an area from the amended Los Angeles Revitalization Zone under Section 7104 of the Government Code. However, if the taxpayer has any unused loss amount as of the date this section becomes inoperative, that unused loss amount may continue to be carried forward as provided in this subdivision.

(6) This subdivision shall cease to be operative on January 1, 1998. However, any unused net operating loss may continue to be carried over to following years as provided in this subdivision.

(c) For each taxable year beginning on or after January 1, 1995, and before January 1, 2003, a taxpayer engaged in the conduct of a trade or business within a LAMBRA.

(1) A net operating loss shall not be a net operating loss carryback for any taxable year, and a net operating loss for any taxable year beginning on or after the date the area in which the taxpayer conducts a trade or business is designated a LAMBRA shall be a net operating loss carryover to each following taxable year that ends before the LAMBRA expiration date or to each of the 15 taxable years following the taxable year of loss, if longer.

(2) For the purposes of this subdivision:

(A) ''LAMBRA'' means a local agency military base recovery area designated in accordance with Section 7114 of the Government Code.

(B) ''Taxpayer'' means a person or entity that conducts a trade or business within a LAMBRA and, for the first two taxable years, has a net increase in jobs (defined as 2,000 paid hours per employee per year) of one or more employees in the LAMBRA and this state.

(i) The net increase in the number of jobs shall be determined by subtracting the total number of full-time employees (defined as 2,000 paid hours per employee per year) the taxpayer employed in this state in the taxable year prior to commencing business operations in the LAMBRA from the total number of full-time employees the taxpayer employed in this state during the second taxable year after commencing business operations in the LAMBRA. For taxpayers who commence doing business in this state with their LAMBRA business operation, the number of employees for the taxable year prior to commencing business operations in the LAMBRA shall be zero. The deduction shall be allowed only if the taxpayer has a net increase in jobs in the state, and if one or more full-time employees is employed within the LAMBRA.

(ii) The total number of employees employed in the LAMBRA shall equal the sum of both of the following:

(I) The total number of hours worked in the LAMBRA for the taxpayer by employees (not to exceed 2,000 hours per employee) who are paid an hourly wage divided by 2,000.

(II) The total number of months worked in the LAMBRA for the taxpayer by employees who are salaried employees divided by 12.

(iii) In the case of a taxpayer who first commences doing business in the LAMBRA during the taxable year, for purposes of subclauses (I) and (II), respectively, of clause (ii) the divisors ''2,000'' and ''12'' shall be multiplied by a fraction, the numerator of which is the number of months of the taxable year that the taxpayer was doing business in the LAMBRA and the denominator of which is 12.

(C) ''Net operating loss'' means the loss determined under Section 172 of the Internal Revenue Code, as modified by Section 17276.1, attributable to the taxpayer's business activities within a LAMBRA prior to the LAMBRA expiration date. The attributable loss shall be determined in accordance with Chapter 17 (commencing with Section 25101) of Part 11, modified as follows:

(i) Loss shall be apportioned to a LAMBRA by multiplying total loss from the business by a fraction, the numerator of which is the property factor plus the payroll factor, and the denominator of which is two.

(ii) ''The LAMBRA'' shall be substituted for ''this state.''

(D) A net operating loss carryover shall be a deduction only with respect to the taxpayer's business income attributable to a LAMBRA determined in accordance with the provisions of Chapter 17 (commencing with Section 25101) of Part 11, modified as follows:

(i) Business income shall be apportioned to a LAMBRA by multiplying total business income by a fraction, the numerator of which is the property factor plus the payroll factor, and the denominator of which is two.

(ii) ''The LAMBRA'' shall be substituted for ''this state.''

(iii) If a loss carryover is allowable pursuant to this section for any taxable year after the LAMBRA designation has expired, the LAMBRA shall be deemed to remain in existence for purposes of computing this limitation.

(E) ''LAMBRA expiration date'' means the date the LAMBRA designation expires, is no longer binding, or becomes inoperative pursuant to Section 7110 of the Government Code.

(d) (1) For each taxable year beginning on or after January 1, 1998, a person or entity that meets both of the following:

(A) Is engaged in a trade or business within a targeted tax area designated pursuant to Chapter 12.93 (commencing with Section 7097) of Division 7 of Title 1 of the Government Code.

(B) Is engaged in those lines of business described in Codes 2000 to 2099, inclusive; 2200 to 3999, inclusive; 4200 to 4299, inclusive; 4500 to 4599, inclusive; and 4700 to 5199, inclusive, of the Standard Industrial Classification (SIC) Manual published by the United States Office of Management and Budget, 1987 edition. In the case of any passthrough entity, the determination of whether a taxpayer is a qualified taxpayer under this section shall be made at the entity level.

(2) A net operating loss shall not be a net operating loss carryback to any taxable year and a net operating loss for any taxable year beginning on or after the date that the area in which the qualified taxpayer conducts a trade or business is designated as a targeted tax area shall be a net operating loss carryover to each of the 15 taxable years following the taxable year of loss.

(3) For purposes of this subdivision:

(A) ''Net operating loss'' means the loss determined under Section 172 of the Internal Revenue Code, as modified by Section 17276.1, attributable to the qualified taxpayer's business activities within the targeted tax area (as defined in Chapter 12.93 (commencing with Section 7097) of Division 7 of Title 1 of the Government Code) prior to the targeted tax area expiration date. That attributable loss shall be determined in accordance with Chapter 17 (commencing with Section 25101) of Part 11, modified for purposes of this subdivision as follows:

(i) Loss shall be apportioned to the targeted tax area by multiplying total loss from the business by a fraction, the numerator of which is the property factor plus the payroll factor, and the denominator of which is two.

(ii) ''The targeted tax area'' shall be substituted for ''this state.''

(B) A net operating loss carryover shall be a deduction only with respect to the qualified taxpayer's business income attributable to the targeted tax area (as defined in Chapter 12.93 (commencing with Section 7097) of Division 7 of Title 1 of the Government Code) determined in accordance with Chapter 17 (commencing with Section 25101) of Part 11, modified for purposes of this subdivision as follows:

(i) Business income shall be apportioned to the targeted tax area by multiplying the total business income by a fraction, the numerator of which is the property factor plus the payroll factor, and the denominator of which is two.

(ii) ''The targeted tax area'' shall be substituted for ''this state.''

(C) If a loss carryover is allowable pursuant to this subdivision for any taxable year after the targeted tax area expiration date, the targeted tax area designation shall be deemed to remain in existence for purposes of computing the limitation specified in this subparagraph.

(D) ''Targeted tax area expiration date'' means the date the targeted tax area designation expires, is revoked, is no longer binding, or becomes inoperative.

(e) A taxpayer who qualifies as a ''qualified taxpayer'' shall, for the taxable year of the net operating loss and any taxable year to which that net operating loss may be carried, designate on the original return filed for each year the subdivision of this section which applies to that taxpayer with respect to that net operating loss. If the taxpayer is eligible to qualify under more than one subdivision of this section, the designation is to be made after taking into account subdivision (f).

(f) If a taxpayer is eligible to qualify under more than one subdivision of this section as a ''qualified taxpayer,'' with respect to a net operating loss in a taxable year, the taxpayer shall designate which subdivision of this section is to apply to the taxpayer.

(g) Notwithstanding Section 17276, the amount of the loss determined under this section shall be the only net operating loss allowed to be carried over from that taxable year and the designation under subdivision (e) shall be included in the election under Section 17276.1.

SEC. 8. Section 17559 is added to the Revenue and Taxation Code, to read:

17559. (a) Section 451(e) of the Internal Revenue Code, relating to special rule for proceeds from livestock sold on account of drought, is modified by substituting the phrase ''drought, flood, or other weather-related conditions, and that those conditions'' in lieu of the phrase ''drought conditions, and that these drought conditions'' contained therein.

(b) This section shall apply to sales and exchanges after December 31, 1996.

SEC. 9. Section 17731.5 of the Revenue and Taxation Code, as added by Section 3 of Chapter 610 of the Statutes of 1997, is repealed.

SEC. 10. Section 17760.5 is added to the Revenue and Taxation Code, to read:

17760.5. (a) In the case of a qualified funeral trust—

(1) Subparts B, C, D, and E of Subchapter J of Chapter 1 of Subtitle A of the Internal Revenue Code shall not apply.

(2) No credit for personal exemption shall be allowed under Section 17054 or Section 17733.

(b) For purposes of this section, the term ‘‘qualified funeral trust’’ means any trust (other than a foreign trust) if all of the following apply:

(1) The trust arises as a result of a contract with a person engaged in the trade or business of providing funeral or burial services or property necessary to provide those services.

(2) The sole purpose of the trust is to hold, invest, and reinvest funds in the trust and to use the funds solely to make payments for those services or property for the benefit of the beneficiaries of the trust.

(3) The only beneficiaries of the trust are individuals with respect to whom those services or property are to be provided at their death under contracts described in paragraph (1).

(4) The only contributions to the trust are contributions by or for the benefit of the beneficiaries.

(5) The trustee elects the application of this section.

(6) The trust would (but for the election described in paragraph (5)) be treated as owned under Subpart E of Subchapter J of Chapter 1 of Subtitle A of the Internal Revenue Code by the purchasers of the contracts described in paragraph (1).

(c) (1) The term ‘‘qualified funeral trust’’ shall not include any trust which accepts aggregate contributions by or for the benefit of an individual in excess of seven thousand dollars ($7,000).

(2) For purposes of paragraph (1), all trusts having trustees that are related persons shall be treated as one trust. For purposes of the preceding sentence, persons are related if any of the following are applicable:

(A) The relationship between those persons is described in Section 267 or 707(b) of the Internal Revenue Code.

(B) Those persons are treated as a single employer under Section 52(a) or (b) of the Internal Revenue Code for federal purposes.

(C) The Secretary of the Treasury determines that treating those persons as related is necessary to prevent avoidance of the purposes of Section 685 of the Internal Revenue Code (as added by Public Law 105-34).

(D) The Franchise Tax Board determines that treating those persons as related is necessary to prevent avoidance of the purposes of this section.

(3) In the case of any contract referred to in paragraph (1) of subdivision (b) which is entered into during any calendar year after 1998, the dollar amount referred to in paragraph (1) shall be increased by an amount equal to:

(A) That dollar amount, multiplied by

(B) The cost-of-living adjustment determined under Section 1(f)(3) of the Internal Revenue Code for that calendar year, by

substituting ‘‘calendar year 1997’’ for ‘‘calendar year 1992’’ in subparagraph (B) thereof.

If any dollar amount after being increased under the preceding sentence is not a multiple of one hundred dollars ($100), that dollar amount shall be rounded to the nearest multiple of one hundred dollars ($100).

(d) Subdivision (e) of Section 17041 shall be applied to each qualified funeral trust by treating each beneficiary’s interest in each qualified funeral trust as a separate trust.

(e) No gain or loss shall be recognized to a purchaser of a contract described in paragraph (1) of subdivision (b) by reason of any payment from the trust to that purchaser by reason of cancellation of that contract. If any payment referred to in the preceding sentence consists of property other than money, the basis of the property in the hands of that purchaser shall be the same as the trust’s basis in the property immediately before the payment.

(f) The Franchise Tax Board may, by forms and instructions, provide rules for simplified reporting of all trusts having a single trustee consistent with the rules prescribed by the Secretary of the Treasury under Section 685 of the Internal Revenue Code (as added by Public Law 105-34).

(g) This section shall apply to taxable years ending after August 5, 1997.

SEC. 11. Section 18036.5 is added to the Revenue and Taxation Code, to read:

18036.5. (a) In addition to the adjustments to basis provided by Section 1016(a) of the Internal Revenue Code, a proper adjustment shall also be made in the case of property the acquisition of which resulted under Section 18038.5 in the nonrecognition of any part of the gain realized on the sale of other property, to the extent provided in paragraph (4) of subdivision (b) of Section 18038.5.

(b) This section shall apply to sales made after August 5, 1997.

SEC. 12. Section 18037.3 is added to the Revenue and Taxation Code, to read:

18037.3. (a) Section 1033(e) of the Internal Revenue Code, relating to livestock sold on account of drought, is modified by substituting the phrase ‘‘on account of drought, flood, or other weather-related conditions’’ in lieu of the phrase ‘‘on account of drought’’ contained therein.

(b) This section shall apply to sales and exchanges after December 31, 1996.

SEC. 13. Section 18038.5 is added to the Revenue and Taxation Code, to read:

18038.5. (a) In the case of any sale of qualified small business stock held by an individual for more than six months and with respect to which that individual elects the application of this section, gain

from that sale shall be recognized only to the extent that the amount realized on that sale exceeds:

(1) The cost of any qualified small business stock purchased by the taxpayer during the 60-day period beginning on the date of that sale, reduced by

(2) Any portion of the cost previously taken into account under this section.

This section shall not apply to any gain which is treated as ordinary income for purposes of this part.

(b) For purposes of this section:

(1) The term ''qualified small business stock'' has the meaning given that term by subdivision (c) of Section 18152.5.

(2) A taxpayer shall be treated as having purchased any property if, but for paragraph (3), the unadjusted basis of that property in the hands of the taxpayer would be its cost (within the meaning of Section 1012 of the Internal Revenue Code).

(3) If gain from any sale is not recognized by reason of subdivision (a), that gain shall be applied to reduce (in the order acquired) the basis for determining gain or loss of any qualified small business stock which is purchased by the taxpayer during the 60-day period described in subdivision (a).

(4) For purposes of determining whether the nonrecognition of gain under subdivision (a) applies to stock which is sold, both of the following shall apply:

(A) The taxpayer's holding period for that stock and the stock referred to in paragraph (1) of subdivision (a) shall be determined without regard to section 1223 of the Internal Revenue Code.

(B) Only the first six months of the taxpayer's holding period for the stock referred to in paragraph (1) of subdivision (a) shall be taken into account for purposes of applying paragraph (2) of subdivision (c) of Section 18152.5.

(c) This section shall apply to sales made after August 5, 1997.

SEC. 14. Section 18155.5 is added to the Revenue and Taxation Code, to read:

18155.5. (a) Section 1223 of the Internal Revenue Code, relating to holding period of property, is modified to additionally provide that in determining the period for which the taxpayer has held property the acquisition of which resulted under Section 18038.5 in the nonrecognition of any part of the gain realized on the sale of other property, there shall be included the period for which that other property has been held as of the date of the sale.

(b) This section shall apply to sales made after August 5, 1997.

SEC. 15. Section 18510 of the Revenue and Taxation Code is amended to read:

18510. For taxable years beginning on or after January 1, 1997, for purposes of Sections 18501, 18505, and 18521, gross income shall be

computed without regard to the exclusion provided for in Section 17152.

SEC. 15.5. Section 18572 is added to the Revenue and Taxation Code, to read:

18572. (a) In the case of a taxpayer determined by the Secretary of the Treasury or the Franchise Tax Board to be affected by a presidentially declared disaster (as defined by Section 1033(h)(3) of the Internal Revenue Code), under regulations prescribed by the Secretary of the Treasury, unless the Franchise Tax Board prescribes differently, a period of up to 90 days may be disregarded in determining, in respect of any tax liability (including any penalty, additional amount, or addition to the tax) of the taxpayer:

(1) Whether any of the acts described in paragraph (1) of Section 7508(a)(1) of the Internal Revenue Code were performed within the time prescribed therefor.

(2) The amount of any credit or refund.

(b) Subdivision (a) shall not apply for the purposes of determining interest on any overpayment or underpayment.

(c) This section shall apply with respect to any period for performing an act that has not expired before August 5, 1997.

SEC. 16. Section 19023 of the Revenue and Taxation Code is amended to read:

19023. For purposes of this article, in the case of a corporation, other than a bank or financial corporation, the term ''estimated tax'' means the amount which the corporation estimates as the amount of the tax imposed by Part 11 (commencing with Section 23001) and the amount of its liability for the tax of each wholly owned subsidiary under Section 23800.5; but in no event shall the estimated tax of a corporation subject to the tax imposed by Article 2 (commencing with Section 23151) of Chapter 2 of Part 11 be less than the minimum tax prescribed in Section 23153.

SEC. 17. Section 19024 of the Revenue and Taxation Code is amended to read:

19024. (a) In the case of banks and financial corporations, ''estimated tax'' means the amount which the bank or financial corporation estimates as the amount of the tax imposed by Part 11 (commencing with Section 23001) at the rate determined by the Franchise Tax Board for the preceding year pursuant to Section 23186.1 and the amount of its liability for the tax of each wholly owned subsidiary under Section 23800.5, but in no event shall the estimated tax of a bank or financial corporation be less than the minimum tax prescribed in Section 23153.

(b) In case of an increase or decrease in the rate of tax imposed under Section 23151 (tax on general corporations), a bank or financial corporation shall be required to increase or decrease the rate determined by the Franchise Tax Board for the preceding year by the same amount as the change in the rate imposed under Section

23151 determined in accordance with Section 24251 (relating to computation of tax when law changed).

SEC. 18. Section 19025 of the Revenue and Taxation Code is amended to read:

19025. (a) If the amount of estimated tax does not exceed the minimum tax specified by Section 23153, the entire amount of the estimated tax shall be due and payable on or before the 15th day of the fourth month of the income year.

(b) Except as provided in subdivision (c), if the amount of estimated tax exceeds the minimum tax specified by Section 23153, the amount payable shall be paid in installments as follows:

If the requirements of this subdivision are first met—	The following percentages of the estimated tax shall be paid on the 15th day of the—			
	4th month	6th month	9th month	12th month
Before the 1st day of the 4th month of the income year	25 (but not less than the minimum tax provided in Section 23153 and any tax under Section 23800.5)	25	25	25
After the last day of the 3rd month and before the 1st day of the 6th month of the income year	—	$33^1/_3$	$33^1/_3$	$33^1/_3$

After the last day of the 5th month and before the 1st day of the 9th month of the income year	—	—	50	50
After the last day of the 8th month and before the 1st day of the 12th month of the income year	—	—	—	100

(c) If a wholly owned subsidiary is first subject to tax under Section 23800.5 after the last day of the third month of the income year of owner, the amount of the next installment of estimated tax under subdivision (b) after the wholly owned subsidiary is subject to tax under Section 23800.5 shall not be less than the amount of the tax of the wholly owned subsidiary under Section 23800.5 and an amount equal to that amount shall be due and payable on the date the installment is required to be paid. For purposes of determining which installment is the next installment of estimated tax under subdivision (b), subdivision (b) shall be modified by substituting ''includes the tax of a wholly owned subsidiary under Section 23800.5'' for ''exceeds the minimum tax specified by Section 23153.''

SEC. 19. Section 19109 is added to the Revenue and Taxation Code, to read:

19109. (a) If the Franchise Tax Board extends for any period the time for filing a return under Section 18572 or subdivision (a) of Section 18567 and the time for paying the tax under Section 18572 or subdivision (c) of Section 18567 (and waives any penalties relating to the failure to so file or so pay) for any individual located in a presidentially declared disaster area, the Franchise Tax Board shall, notwithstanding subdivision (b) of Section 18572, abate for that period the assessment of any interest prescribed under this article on that tax.

(b) For purposes of subdivision (a), the term ''presidentially declared disaster area'' means, with respect to any individual, any area which the President has determined during 1997 warrants assistance by the federal government under the Robert T. Stafford Disaster Relief and Emergency Assistance Act.

(c) For purposes of this section, the term ''individual'' shall not include any estate or trust.

(d) This section shall apply to disasters declared after December 31, 1996.

SEC. 20. Section 19136.3 of the Revenue and Taxation Code is amended to read:

19136.3. (a) No addition to tax shall be made under Section 19136 for any period before April 16, 1998, with respect to any underpayment of an installment for the 1997 or 1998 taxable year, to the extent that the underpayment was created or increased by any provision of the act adding or amending this section.

(b) No addition to tax shall be made under Section 19142 for any period before April 16, 1998, with respect to any underpayment of an installment for the 1997 or 1998 income year, to the extent that the underpayment was created or increased by any provision of the act adding or amending this section.

(c) The Franchise Tax Board shall adopt procedures, forms, and instructions necessary to implement this section in a reasonable manner.

SEC. 21. Section 19147 of the Revenue and Taxation Code is amended to read:

19147. (a) Notwithstanding Sections 19142 to 19145, inclusive, the addition to the tax with respect to any underpayment of any installment shall not be imposed if the total amount of all payments of estimated tax paid on or before the last date prescribed for the payment of the installment equals or exceeds the amount which would have been required to be paid on or before that date if the estimated tax were whichever of the following is the lesser:

(1) (A) The tax shown on the return of the taxpayer for the preceding income year if a return showing a liability for tax was filed by the taxpayer for the preceding year and that preceding year was a year of 12 months. The tax shown on the return, in the case of the tax imposed by Article 3 (commencing with Section 23181) of Chapter 2 of Part 11, means the amount of tax shown on the return for the income year as prescribed in Section 19021.

(B) In the case of a large corporation, subparagraph (A) shall not apply, except as provided in clauses (i) and (ii).

(i) Subparagraph (A) shall apply for purposes of determining the amount of the first required installment for any income year.

(ii) Any reduction in the first required installment by reason of clause (i) shall be recaptured by increasing the amount of the next required installment by the amount of that reduction.

(2) (A) An amount equal to the applicable percentage specified in Section 19144 of the tax for the income year computed by placing on an annualized basis the taxable income:

(i) For the first three months of the income year, in the case of the installment required to be paid in the fourth month.

(ii) For the first three months of the income year, in the case of the installment required to be paid in the sixth month.

(iii) For the first six months of the income year in the case of the installment required to be paid in the ninth month.

(iv) For the first nine months of the income year, in the case of the installment required to be paid in the 12th month of the taxable year.

(B) (i) If the taxpayer makes an election under this clause, each of the following shall apply:

(I) Clause (i) of subparagraph (A) shall be applied by substituting ''two months'' for ''three months.''

(II) Clause (ii) of subparagraph (A) shall be applied by substituting ''four months'' for ''three months.''

(III) Clause (iii) of subparagraph (A) shall be applied by substituting ''seven months'' for ''six months.''

(IV) Clause (iv) of subparagraph (A) shall be applied by substituting ''ten months'' for ''nine months.''

(ii) If the taxpayer makes an election under this clause, each of the following shall apply:

(I) Clause (ii) of subparagraph (A) shall be applied by substituting ''five months'' for ''three months.''

(II) Clause (iii) of subparagraph (A) shall be applied by substituting ''eight months'' for ''six months.''

(III) Clause (iv) of subparagraph (A) shall be applied by substituting ''eleven months'' for the ''nine months.''

(iii) An election under clause (i) or (ii) shall apply to the income year for which the election is made and shall be effective only if the election is made on or before the date required for the payment of the first required installment for that income year.

(iv) This subparagraph shall apply to income years beginning on or after January 1, 1997.

(C) For purposes of this paragraph, the taxable income shall be placed on an annualized basis in the following manner:

(i) Multiply by 12 the taxable income referred to in subparagraph (A).

(ii) Divide the resulting amount by the number of months in the income year referred to in subparagraph (A).

''Taxable income'' as used in this paragraph means ''net income'' includable in the measure of tax or ''alternative minimum taxable income'' (as defined by Section 23455).

(D) In the case of any corporation which is subject to the tax imposed under Section 23731, any reference to taxable income shall be treated as including a reference to unrelated business taxable income and, except in the case of an election under subparagraph (B), each of the following shall apply:

(i) Clause (i) of subparagraph (A) shall be applied by substituting ''two months'' for ''three months.''

(ii) Clause (ii) of subparagraph (A) shall be applied by substituting ''four months'' for ''three months.''

(iii) Clause (iii) of subparagraph (A) shall be applied by substituting ‘‘seven months’’ for ‘‘six months.’’

(iv) Clause (iv) of subparagraph (A) shall be applied by substituting ‘‘ten months’’ for ‘‘nine months.’’

(3) The applicable percentage specified in Section 19144 or more of the tax for the income year was paid by withholding of tax pursuant to Section 18662.

(4) The applicable percentage specified in Section 19144 or more of the net income for the income year consists of items from which an amount was withheld pursuant to Section 18662, the amount of the first installment under Section 19025 equals at least the minimum franchise tax specified in Section 23153, and the amount of any installment under Section 19025 includes an amount equal to the applicable tax under Section 23800.5.

(b) (1) For purposes of this section, ‘‘large corporation’’ means any corporation if that corporation (or any predecessor corporation) had taxable income (computed without regard to net operating loss deductions) of one million dollars ($1,000,000) or more for any income year during the testing period.

(2) For purposes of this subdivision, ‘‘testing period’’ means the three income years immediately preceding the income year involved.

SEC. 22. Section 19149 of the Revenue and Taxation Code is amended to read:

19149. (a) Notwithstanding any other provision of Sections 19142 to 19151, inclusive, if the amount of estimated tax due and payable under Section 19025 is only the minimum franchise tax imposed by Section 23153 and, if applicable, the tax of a wholly owned subsidiary under Section 23800.5, then the addition to the tax with respect to any underpayment of any installment imposed by Section 19142 shall be calculated only on the basis of the amount of the minimum franchise tax and the amount of the tax of each wholly owned subsidiary.

(b) This section shall not apply to a large corporation as defined in subdivision (b) of Section 19147.

SEC. 23. Section 19184 of the Revenue and Taxation Code is amended to read:

19184. (a) A penalty of fifty dollars ($50) shall be imposed for each failure, unless it is shown that the failure is due to reasonable cause, by any person required to file who fails to file a report at the time and in the manner required by any of the following provisions:

(1) Subdivision (c) of Section 17507, relating to individual retirement accounts.

(2) Section 220(h) of the Internal Revenue Code, relating to medical savings accounts for taxable years beginning on or after January 1, 1997.

(3) Subdivision (h) of Section 23712, relating to education individual retirement accounts.

(b) (1) Any individual who:

(A) Is required to furnish information under Section 17508 as to the amount designated nondeductible contributions made for any taxable year, and

(B) Overstates the amount of those contributions made for that taxable year, shall pay a penalty of one hundred dollars ($100) for each overstatement unless it is shown that the overstatement is due to reasonable cause.

(2) Any individual who fails to file a form required to be filed by the Franchise Tax Board under Section 17508 shall pay a penalty of fifty dollars ($50) for each failure unless it is shown that the failure is due to reasonable cause.

(c) Article 3 (commencing with Section 19031) of this chapter (relating to deficiency assessments) shall not apply in respect of the assessment or collection of any penalty imposed under this section.

SEC. 24. Section 19280 of the Revenue and Taxation Code is amended to read:

19280. (a) (1) Fines, state or local penalties, forfeitures, restitution fines, restitution orders, or any other amounts imposed by a superior, municipal, or justice court of the State of California upon a person or any other entity that is due and payable in an amount totaling no less than two hundred fifty dollars ($250), in the aggregate, for criminal offenses, including all offenses involving a violation of the Vehicle Code except offenses relating to parking or registration or offenses by pedestrians or bicyclists, may, no sooner than 90 days after payment of that amount becomes delinquent, be referred by the county or the state to the Franchise Tax Board for collection under guidelines prescribed by the Franchise Tax Board.

(2) For purposes of this subdivision:

(A) The amounts referred by the county or state under this section may include any amounts that a government entity may add to the court-imposed obligation as a result of the underlying offense, trial, or conviction. For purposes of this article, those amounts shall be deemed to be imposed by the court.

(B) Restitution orders may be referred to the Franchise Tax Board only by a government entity, as agreed upon by the Franchise Tax Board, provided that all of the following apply:

(i) The government entity has the authority to collect on behalf of the state or the victim.

(ii) The government entity shall be responsible for distributing the restitution order collections, as appropriate.

(iii) The government entity shall ensure, in making the referrals and distributions, that it coordinates with any other related collection activities that may occur by counties or other state agencies.

(iv) The government entity shall ensure compliance with laws relating to the reimbursement of the State Restitution Fund.

(C) The Franchise Tax Board shall establish criteria for referral, which shall include setting forth a minimum dollar amount subject to referral and collection.

(b) For the period January 1, 1995, to December 31, 1997, inclusive, for purposes of a manageable implementation and evaluation of the program authorized by this article, the Franchise Tax Board may limit referrals to nine counties.

(c) Upon written notice to the obligor from the Franchise Tax Board, any amount referred to the Franchise Tax Board under subdivision (a) and any interest thereon, including any interest on the amount referred under subdivision (a) that accrued prior to the date of referral, shall be treated as final and due and payable to the State of California, and shall be collected from the obligor by the Franchise Tax Board in any manner authorized under the law for collection of a delinquent personal income tax liability, including, but not limited to, issuance of an order and levy under Article 4 (commencing with Section 706.070) of Chapter 5 of Division 2 of Title 9 of Part 2 of the Code of Civil Procedure in the manner provided for earnings withholding orders for taxes.

(d) (1) Part 10 (commencing with Section 17001), this part, Part 10.7 (commencing with Section 21001), and Part 11 (commencing with Section 23001) shall apply to amounts referred under this article in the same manner and with the same force and effect and to the full extent as if the language of those laws had been incorporated in full into this article, except to the extent that any provision is either inconsistent with this article or is not relevant to this article.

(2) Any information, information sources, or enforcement remedies and capabilities available to the court or the state referring the amount due described in subdivision (a), shall be available to the Franchise Tax Board to be used in conjunction with, or independent of, the information, information sources, or remedies and capabilities available to the Franchise Tax Board for purposes of administering Part 10 (commencing with Section 17001), this part, Part 10.7 (commencing with Section 21001), or Part 11 (commencing with Section 23001).

(e) The activities required to implement and administer this part shall not interfere with the primary mission of the Franchise Tax Board to administer Part 10 (commencing with Section 17001) and Part 11 (commencing with Section 23001).

(f) For amounts referred for collection under subdivision (a), interest shall accrue at the greater of the rate applicable to the amount due being collected or the rate provided under Section 19521. When notice of the amount due includes interest and is mailed to the obligor and the amount is paid within 15 days after the date of notice, interest shall not be imposed for the period after the date of notice.

(g) In no event shall a collection under this article be construed as a payment of income taxes imposed under Part 10 (commencing with Section 17001) or Part 11 (commencing with Section 23001).

SEC. 25. Section 19365 of the Revenue and Taxation Code, as added by Section 9 of Chapter 610 of the Statutes of 1997, is repealed.

SEC. 26. Section 23036 of the Revenue and Taxation Code is amended to read:

23036. (a) (1) The term ''tax'' includes any of the following:

(A) The tax imposed under Chapter 2 (commencing with Section 23101).

(B) The tax imposed under Chapter 3 (commencing with Section 23501).

(C) The tax on unrelated business taxable income, imposed under Section 23731.

(D) The tax on S corporations imposed under Section 23802.

(2) The term ''tax'' does not include any amount imposed under paragraph (1) of subdivision (e) of Section 24667 or paragraph (2) of subdivision (f) of Section 24667.

(b) For purposes of Article 5 (commencing with Section 18661) of Chapter 2, Article 3 (commencing with Section 19031) of Chapter 4, Article 6 (commencing with Section 19101) of Chapter 4, and Chapter 7 (commencing with Section 19501) of Part 10.2, and for purposes of Sections 18601, 19001, and 19005, the term ''tax'' shall also include all of the following:

(1) The tax on limited partnerships, imposed under Section 17935 or Section 23081, the tax on limited liability companies, imposed under Section 17941 or Section 23091, and the tax on registered limited liability partnerships and foreign limited liability partnerships imposed under Section 17948 or Section 23097.

(2) The alternative minimum tax imposed under Chapter 2.5 (commencing with Section 23400).

(3) The tax on built-in gains of S corporations, imposed under Section 23809.

(4) The tax on excess passive investment income of S corporations, imposed under Section 23811.

(c) Notwithstanding any other provision of this part, credits shall be allowed against the ''tax'' in the following order:

(1) Credits that do not contain carryover provisions.

(2) Credits that, when the credit exceeds the ''tax,'' allow the excess to be carried over to offset the ''tax'' in succeeding taxable years. The order of credits within this paragraph shall be determined by the Franchise Tax Board.

(3) The minimum tax credit allowed by Section 23453.

(4) Credits for taxes withheld under Section 18662.

(d) Notwithstanding any other provision of this part, each of the following shall be applicable:

(1) No credit shall reduce the ‘‘tax’’ below the tentative minimum tax (as defined by paragraph (1) of subdivision (a) of Section 23455), except the following credits, but only after allowance of the credit allowed by Section 23453:

(A) The credit allowed by former Section 23601 (relating to solar energy).

(B) The credit allowed by former Section 23601.4 (relating to solar energy).

(C) The credit allowed by Section 23601.5 (relating to solar energy).

(D) The credit allowed by Section 23609 (relating to research expenditures).

(E) The credit allowed by Section 23609.5 (relating to clinical testing expenses).

(F) The credit allowed by Section 23610.5 (relating to low-income housing).

(G) The credit allowed by former Section 23612 (relating to sales and use tax credit).

(H) The credit allowed by Section 23612.2 (relating to enterprise zone sales or use tax credit).

(I) The credit allowed by Section 23612.6 (relating to Los Angeles Revitalization Zone sales tax credit).

(J) The credit allowed by former Section 23622 (relating to enterprise zone hiring credit).

(K) The credit allowed by Section 23622.7 (relating to enterprise zone hiring credit).

(L) The credit allowed by former Section 23623 (relating to program area hiring credit).

(M) For each income year beginning on or after January 1, 1994, the credit allowed by Section 23623.5 (relating to Los Angeles Revitalization Zone hiring credit).

(N) The credit allowed by Section 23625 (relating to Los Angeles Revitalization Zone hiring credit).

(O) The credit allowed by Section 23633 (relating to targeted tax area sales or use tax credit).

(P) The credit allowed by Section 23634 (relating to targeted tax area hiring credit).

(Q) The credit allowed by Section 23649 (relating to qualified property).

(2) No credit against the tax shall reduce the minimum franchise tax imposed under Chapter 2 (commencing with Section 23101).

(e) Any credit which is partially or totally denied under subdivision (d) shall be allowed to be carried over to reduce the ‘‘tax’’ in the following year, and succeeding years if necessary, if the provisions relating to that credit include a provision to allow a carryover of the unused portion of that credit.

(f) Unless otherwise provided, any remaining carryover from a credit that has been repealed or made inoperative shall continue to be allowed to be carried over under the provisions of that section as it read immediately prior to being repealed or becoming inoperative.

(g) Unless otherwise provided, if two or more taxpayers share in costs that would be eligible for a tax credit allowed under this part, each taxpayer shall be eligible to receive the tax credit in proportion to its respective share of the costs paid or incurred.

(h) Unless otherwise provided, in the case of an S corporation, any credit allowed by this part shall be computed at the S corporation level, and any limitation on the expenses qualifying for the credit or limitation upon the amount of the credit shall be applied to the S corporation and to each shareholder.

(i) (1) With respect to any taxpayer that directly or indirectly owns an interest in a business entity that is disregarded for tax purposes pursuant to Section 23038 and any regulations thereunder, the amount of any credit or credit carryforward allowable for any income year attributable to the disregarded business entity shall be limited in accordance with paragraphs (2) and (3).

(2) The amount of any credit otherwise allowed under this part, including any credit carryover from prior years, that may be applied to reduce the taxpayer's ''tax,'' as defined in subdivision (a), for the income year shall be limited to an amount equal to the excess of the taxpayer's regular tax (as defined in Section 23455), determined by including income attributable to the disregarded business entity that generated the credit or credit carryover, over the taxpayer's regular tax (as defined in Section 23455), determined by excluding the income attributable to that disregarded business entity. No credit shall be allowed if the taxpayer's regular tax (as defined in Section 23455), determined by including the income attributable to the disregarded business entity is less than the taxpayer's regular tax (as defined in Section 23455), determined by excluding the income attributable to the disregarded business entity.

(3) If the amount of a credit allowed pursuant to the section establishing the credit exceeds the amount allowable under this subdivision in any income year, the excess amount may be carried over to subsequent income years pursuant to subdivisions (d), (e), and (f).

SEC. 27. Section 23456 of the Revenue and Taxation Code is amended to read:

23456. For purposes of this part, Section 56 of the Internal Revenue Code is modified as follows:

(a) (1) Section 56(a)(2) of the Internal Revenue Code, relating to mining exploration and development costs, shall apply only to expenses incurred during income years beginning on or after January 1, 1988.

(2) Section 56(a)(5) of the Internal Revenue Code, relating to pollution control facilities, shall apply only to amounts allowable as a deduction under Section 24372.3.

(3) Section 56(a)(6) of the Internal Revenue Code, relating to installment sales of certain property, shall not apply to payments received in income years beginning on or after January 1, 1997, with respect to dispositions occurring in income years beginning after December 31, 1987.

(b) For purposes of applying Section 56(d) of the Internal Revenue Code, all references to ''December 31, 1986,'' are modified to read ''December 31, 1987,'' and all references to ''January 1, 1987,'' are modified to read ''January 1, 1988.''

(c) Section 56(d)(1) of the Internal Revenue Code, relating to the alternative tax net operating loss deduction, is modified to include the provisions of Section 25108.

(d) For each income year beginning on or after January 1, 1988, and before January 1, 1990, Section 56(f)(2)(E) of the Internal Revenue Code, as it read during that period, is modified to refer to both of the following:

(1) Cooperatives under Section 24404 in lieu of the deduction allowed under Section 1382(b) of the Internal Revenue Code.

(2) Credit unions under Section 24405 as though the deduction allowed under Section 1382(b) of the Internal Revenue Code applied to credit unions.

(e) Section 56(g) of the Internal Revenue Code, relating to adjustments based on adjusted current earnings, is modified to provide that for corporations whose income is determined under Chapter 17 (commencing with Section 25101), adjusted current earnings shall be allocated and apportioned in the same manner as net income is allocated and apportioned for purposes of the regular tax. In addition, each of the following shall apply:

(1) Sections 56(g)(1)(A) and 56(g)(3) of the Internal Revenue Code are modified to provide that the term ''adjusted current earnings'' means the sum of the adjusted current earnings of that corporation apportionable to this state and the adjusted current earnings allocable to this state.

(2) Section 56(g)(1)(B) of the Internal Revenue Code is modified to provide that the term ''alternative minimum taxable income'' means the sum of the alternative minimum taxable income of that corporation apportionable to this state and the alternative minimum taxable income allocable to this state.

(f) Section 56(g)(4)(A) of the Internal Revenue Code is modified to provide the following:

(1) In the case of any property placed in service on or after January 1, 1981, and prior to January 1, 1987, other than residential rental property for which an election was made under former Section 24349.5, the amount allowable as depreciation or amortization with

respect to that property shall be the same amount that would have been allowable for the income year had the taxpayer depreciated the property under the straight line method for each income year of the useful life (determined without regard to Section 24354.2) for which the taxpayer has held the property.

(2) In the case of any property placed in service on or after January 1, 1987, and prior to January 1, 1990, other than residential rental property for which an election was made under former Section 24349.5, the amount allowable as depreciation or amortization with respect to that property shall be determined by each of the following:

(A) Taking into account the adjusted basis of that property (as determined for purposes of computing alternative minimum taxable income) as of the close of the last income year beginning before January 1, 1990.

(B) Using the straight line method over the remainder of the recovery period applicable to that property under the alternative system of Section 168(g) of the Internal Revenue Code.

(3) The amendments made to paragraph (2) by the act adding this paragraph shall apply to income years beginning on or after January 1, 1990.

(4) The last sentence of Section 56(g)(4)(A)(i) of the Internal Revenue Code, shall not apply.

(g) (1) Section 56(g)(4)(C) of the Internal Revenue Code, relating to disallowance of items not deductible in computing earnings and profits, shall be modified as follows:

(A) (i) A deduction shall be allowed for amounts allowable as a deduction for purposes of the regular tax under Sections 24402, 24410, 24411, and 25106.

(ii) For each income year beginning on or after January 1, 1990, a deduction shall be allowed for amounts allowable as a deduction to a credit union for purposes of the regular tax under Section 24405.

(B) Section 56(g)(4)(C)(ii) of the Internal Revenue Code, relating to special rule for 100-percent dividends, shall not be applicable.

(C) Section 56(g)(4)(C)(iii) of the Internal Revenue Code, relating to special rule for dividends from Section 936 companies, shall not be applicable.

(D) Section 56(g)(4)(C)(iv) of the Internal Revenue Code, relating to special rule for certain dividends received by certain cooperatives, shall not be applicable.

(2) Section 56(g)(4)(D)(ii) of the Internal Revenue Code is modified to specify that Sections 24364 and 24407 shall not apply to expenditures paid or incurred in income years beginning on or after January 1, 1990.

(3) With respect to corporations which are not subject to the tax imposed under Chapter 2 (commencing with Section 23101), the amount of interest income included in the adjusted current earnings

shall not exceed the amount of interest income included for purposes of the regular tax.

(4) Appropriate adjustments shall be made to limit deductions from adjusted current earnings for interest expense in accordance with the provisions of Sections 24344 and 24425.

(h) Section 56(g)(4)(I) of the Internal Revenue Code, relating to treatment of charitable contributions, shall not apply.

SEC. 27.5. Section 23622.8 of the Revenue and Taxation Code is amended to read:

23622.8. (a) For each income year beginning on or after January 1, 1998, there shall be allowed a credit against the ''tax'' (as defined in Section 23036) to a qualified taxpayer for hiring a qualified disadvantaged individual during the income year for employment in the Manufacturing Enhancement Area. The credit shall be equal to the sum of each of the following:

(1) Fifty percent of the qualified wages in the first year of employment.

(2) Forty percent of the qualified wages in the second year of employment.

(3) Thirty percent of the qualified wages in the third year of employment.

(4) Twenty percent of the qualified wages in the fourth year of employment.

(5) Ten percent of the qualified wages in the fifth year of employment.

(b) For purposes of this section:

(1) ''Qualified wages'' means:

(A) That portion of wages paid or incurred by the qualified taxpayer during the income year to qualified disadvantaged individuals that does not exceed 150 percent of the minimum wage.

(B) The total amount of qualified wages which may be taken into account for purposes of claiming the credit allowed under this section shall not exceed two million dollars ($2,000,000) per income year.

(C) Wages received during the 60-month period beginning with the day the qualified disadvantaged individual commences employment with the qualified taxpayer.

(D) Qualified wages do not include any wages paid or incurred by the qualified taxpayer on or after the Manufacturing Enhancement Area expiration date. However, wages paid or incurred with respect to qualified employees who are employed by the qualified taxpayer within the Manufacturing Enhancement Area within the 60-month period prior to the Manufacturing Enhancement Area expiration date shall continue to qualify for the credit under this section after the Manufacturing Enhancement Area expiration date, in accordance with all provisions of this section applied as if the Manufacturing Enhancement Area designation were still in existence and binding.

(2) ‘‘Minimum wage’’ means the wage established by the Industrial Welfare Commission as provided for in Chapter 1 (commencing with Section 1171) of Part 4 of Division 2 of the Labor Code.

(3) ‘‘Manufacturing Enhancement Area’’ means an area designated pursuant to Section 7073.8 of the Government Code according to the procedures of Chapter 12.8 (commencing with Section 7070) of Division 7 of Title 1 of the Government Code.

(4) ‘‘Manufacturing Enhancement Area expiration date’’ means the date the Manufacturing Enhancement Area designation expires, is no longer binding, or becomes inoperative.

(5) ‘‘Qualified disadvantaged individual’’ means an individual who satisfies all of the following requirements:

(A) (i) At least 90 percent of whose services for the qualified taxpayer during the income year are directly related to the conduct of the qualified taxpayer’s trade or business located in a Manufacturing Enhancement Area.

(ii) Who performs at least 50 percent of his or her services for the qualified taxpayer during the income year in the Manufacturing Enhancement Area.

(B) Who is hired by the qualified taxpayer after the designation of the area as a Manufacturing Enhancement Area in which the individual’s services were primarily performed.

(C) Who is any of the following immediately preceding the individual’s commencement of employment with the qualified taxpayer:

(i) An individual who has been determined eligible for services under the federal Job Training Partnership Act (29 U.S.C. Sec. 1501 et seq.).

(ii) Any voluntary or mandatory registrant under the Greater Avenues for Independence Act of 1985 as provided pursuant to Article 3.2 (commencing with Section 11320) of Chapter 2 of Part 3 of Division 9 of the Welfare and Institutions Code.

(iii) Any individual who has been certified eligible by the Employment Development Department under the federal Targeted Jobs Tax Credit Program, whether or not this program is in effect.

(6) ‘‘Qualified taxpayer’’ means any corporation engaged in a trade or business within a Manufacturing Enhancement Area designated pursuant to Section 7073.8 of the Government Code and that meets both of the following requirements:

(A) Is engaged in those lines of business described in Codes 2011 to 3999, inclusive, of the Standard Industrial Classification (SIC) Manual published by the United States Office of Management and Budget, 1987 edition.

(B) At least 30 percent of the corporation’s work force hired after the designation of the Manufacturing Enhancement Area is composed of qualified disadvantaged individuals who, at the time of

hire, are residents of the county in which the Manufacturing Enhancement Area is located.

(c) (1) For purposes of this section, all of the following apply:

(A) All employees of all corporations that are members of the same controlled group of corporations shall be treated as employed by a single qualified taxpayer.

(B) The credit (if any) allowable by this section with respect to each member shall be determined by reference to its proportionate share of the expenses of the qualified wages giving rise to the credit and shall be allocated in that manner.

(C) Principles that apply in the case of controlled groups of corporations, as specified in subdivision (d) of Section 23622.7, shall apply with respect to determining employment.

(2) If a qualified taxpayer acquires the major portion of a trade or business of another employer (hereinafter in this paragraph referred to as the ''predecessor'') or the major portion of a separate unit of a trade or business of a predecessor, then, for purposes of applying this section (other than subdivision (d)) for any calendar year ending after that acquisition, the employment relationship between a qualified disadvantaged individual and a qualified taxpayer shall not be treated as terminated if the qualified disadvantaged individual continues to be employed in that trade or business.

(d) (1) If the employment of any qualified disadvantaged individual, with respect to whom qualified wages are taken into account under subdivision (b) is terminated by the qualified taxpayer at any time during the first 270 days of that employment (whether or not consecutive) or before the close of the 270th calendar day after the day in which that qualified disadvantaged individual completes 90 days of employment with the qualified taxpayer, the tax imposed by this part for the income year in which that employment is terminated shall be increased by an amount equal to the credit allowed under subdivision (a) for that income year and all prior income years attributable to qualified wages paid or incurred with respect to that qualified disadvantaged individual.

(2) (A) Paragraph (1) does not apply to any of the following:

(i) A termination of employment of a qualified disadvantaged individual who voluntarily leaves the employment of the qualified taxpayer.

(ii) A termination of employment of a qualified disadvantaged individual who, before the close of the period referred to in paragraph (1), becomes disabled to perform the services of that employment, unless that disability is removed before the close of that period and the qualified taxpayer fails to offer reemployment to that individual.

(iii) A termination of employment of a qualified disadvantaged individual, if it is determined under the applicable employment

compensation laws that the termination was due to the misconduct of that individual.

(iv) A termination of employment of a qualified disadvantaged individual due to a substantial reduction in the trade or business operations of the qualified taxpayer.

(v) A termination of employment of a qualified disadvantaged individual, if that individual is replaced by other qualified disadvantaged individuals so as to create a net increase in both the number of employees and the hours of employment.

(B) For purposes of paragraph (1), the employment relationship between the qualified taxpayer and a qualified disadvantaged individual shall not be treated as terminated by either of the following:

(i) By a transaction to which Section 381(a) of the Internal Revenue Code applies, if the qualified disadvantaged individual continues to be employed by the acquiring corporation.

(ii) By reason of a mere change in the form of conducting the trade or business of the qualified taxpayer, if the qualified disadvantaged individual continues to be employed in that trade or business and the qualified taxpayer retains a substantial interest in that trade or business.

(3) Any increase in tax under paragraph (1) shall not be treated as tax imposed by this part for purposes of determining the amount of any credit allowable under this part.

(e) The credit shall be reduced by the credit allowed under Section 23621. The credit shall also be reduced by the federal credit allowed under Section 51 of the Internal Revenue Code.

In addition, any deduction otherwise allowed under this part for the wages or salaries paid or incurred by the qualified taxpayer upon which the credit is based shall be reduced by the amount of the credit, prior to any reduction required by subdivision (f) or (g).

(f) In the case where the credit otherwise allowed under this section exceeds the ''tax'' for the income year, that portion of the credit that exceeds the ''tax'' may be carried over and added to the credit, if any, in succeeding years, until the credit is exhausted. The credit shall be applied first to the earliest income years possible.

(g) (1) The amount of credit otherwise allowed under this section, including prior year credit carryovers, that may reduce the ''tax'' for the income year shall not exceed the amount of tax that would be imposed on the qualified taxpayer's business income attributed to a Manufacturing Enhancement Area determined as if that attributed income represented all of the net income of the qualified taxpayer subject to tax under this part.

(2) The amount of attributed income described in paragraph (1) shall be determined in accordance with the provisions of Chapter 17 (commencing with Section 25101), modified for purposes of this section as follows:

(A) Income shall be apportioned to a Manufacturing Enhancement Area by multiplying total business income by a fraction, the numerator of which is the property factor plus the payroll factor, and the denominator of which is two.

(B) ''The Manufacturing Enhancement Area'' shall be substituted for ''this state.''

(3) The portion of any credit remaining, if any, after application of this subdivision, shall be carried over to succeeding income years, as if it were an amount exceeding the ''tax'' for the income year, as provided in subdivision (g).

(h) If the taxpayer is allowed a credit pursuant to this section for qualified wages paid or incurred, only one credit shall be allowed to the taxpayer under this part with respect to any wage consisting in whole or in part of those qualified wages.

SEC. 28. Section 23800.5 of the Revenue and Taxation Code, as added by Section 11 of Chapter 610 of the Statutes of 1997, is repealed.

SEC. 29. Section 23800.5 of the Revenue and Taxation Code, as added by Section 72 of Chapter 611 of the Statutes of 1997, is amended to read:

23800.5. (a) Section 1361(b)(2)(A) of the Internal Revenue Code, relating to ineligible corporation defined, shall not apply and in lieu thereof, for purposes of Section 1361(b)(1) of the Internal Revenue Code, Part 10 (commencing with Section 17001), Part 10.2 (commencing with Section 18401), and this part, ''ineligible corporation'' shall include a savings and loan association, bank, or financial corporation which uses the reserve method of accounting for bad debts described in Section 24348.

(b) Section 1361(b)(3) of the Internal Revenue Code, relating to treatment of certain wholly owned subsidiaries, is modified as follows:

(1) For purposes of Part 10 (commencing with Section 17001), Part 10.2 (commencing with Section 18401), and this part:

(A) Section 1361(b)(3)(A)(i) of the Internal Revenue Code shall apply, except as provided in subparagraph (B).

(B) There is hereby imposed a tax annually in an amount equal to the applicable amount specified in paragraph (1) of subdivision (d) of Section 23153 on a qualified Subchapter S subsidiary that is incorporated under the laws of this state, qualified to transact intrastate business in this state pursuant to Chapter 21 (commencing with Section 2100) of Division 1 of Title 1 of the Corporations Code, or doing business in this state.

(C) Every qualified Subchapter S subsidiary described in subparagraph (B) shall be subject to the tax imposed under subparagraph (B) from the earlier of the date of incorporation, qualification, or commencement of business in this state, until the effective date of dissolution or withdrawal as provided in Section

23331, or, if later, the date the corporation ceases to do business in this state.

(2) For purposes of Part 10 (commencing with Section 17001), Part 10.2 (commencing with Section 18401), and this part:

(A) Section 1361(b)(3)(A)(ii) of the Internal Revenue Code shall not apply and, in lieu thereof, subparagraph (B) shall apply and all references to Section 1361(b)(3)(A)(ii) of the Internal Revenue Code shall be treated as a reference to subparagraph (B).

(B) All activities, assets, liabilities, including liability for the tax imposed under this subdivision, and items of income, deduction, and credit of a qualified Subchapter S subsidiary shall be treated as activities (including activities for purposes of Section 23101), assets, liabilities, and those items, as the case may be, of the ''S corporation.''

(3) Section 1361(b)(3)(B) of the Internal Revenue Code is modified to include the following requirements in addition to the requirements contained therein:

(A) The ''S corporation'' has in effect a valid election to treat the corporation as a qualified Subchapter S subsidiary for federal purposes.

(B) An election made by the ''S corporation'' under Section 1361(b)(3)(B)(ii) of the Internal Revenue Code to treat the corporation as a qualified Subchapter S subsidiary for federal purposes shall be treated for purposes of this part as an election made by the ''S corporation'' under this subdivision and a separate election under paragraph (3) of subdivision (e) of Section 23051.5 shall not be allowed.

(C) No election under this subdivision shall be allowed unless the ''S corporation'' has made the election under Section 1361(b)(3)(B)(ii) of the Internal Revenue Code to treat the corporation as a qualified Subchapter S subsidiary for federal purposes.

(c) Section 1361(c)(7) of the Internal Revenue Code, relating to certain exempt organizations permitted as shareholders, is modified by substituting a reference to Section 23701d in lieu of the reference to Section 501(c)(3) of the Internal Revenue Code and by substituting a reference to Section 23701 in lieu of the reference to Section 501(a) of the Internal Revenue Code.

(d) Section 1361(e)(1)(B)(ii) of the Internal Revenue Code, relating to certain trusts not eligible, is modified by substituting ''under Part 10 (commencing with Section 17001) or this part'' in lieu of ''under this subtitle.''

(e) Section 1361(e)(3) of the Internal Revenue Code, relating to election, is modified to include the following provisions:

(1) An election made by the trustee under Section 1361(e) of the Internal Revenue Code to be an electing small business trust for federal purposes shall be treated for purposes of this part as an election made by the trustee under this subdivision and a separate

election under paragraph (3) of subdivision (e) of Section 23051.5 shall not be allowed. Any election made shall apply to the taxable year of the trust for which made and to all subsequent taxable years of the trust, unless revoked with the consent of the Franchise Tax Board.

(2) No election under this subdivision shall be allowed unless the trustee has made the election under Section 1361(e) of the Internal Revenue Code to be an electing small business trust for federal purposes.

SEC. 30. Section 23802 of the Revenue and Taxation Code is amended to read:

23802. (a) Section 1363(a) of the Internal Revenue Code, relating to the taxability of an ''S corporation,'' shall not be applicable.

(b) Corporations qualifying under this chapter shall continue to be subject to the taxes imposed under Chapter 2 (commencing with Section 23101) and Chapter 3 (commencing with Section 23501), except as follows:

(1) The tax imposed under Section 23151 or 23501 shall be imposed at a rate of $1^1/_2$ percent rather than the rate specified in those sections.

(2) In the case of an ''S corporation'' which is also a financial corporation, the rate of tax specified in paragraph (1) shall be increased by the excess of the rate imposed under Section 23183 over the rate imposed under Section 23151.

(c) An ''S corporation'' shall be subject to the minimum franchise tax imposed under Section 23153.

(d) (1) For purposes of subdivision (b), an ''S corporation'' shall be allowed a deduction under Section 24416 or 24416.1 (relating to net operating loss deductions), but only with respect to losses incurred during periods in which the corporation had in effect a valid election to be treated as an ''S corporation'' for purposes of this part.

(2) Section 1371(b) of the Internal Revenue Code, relating to denial of carryovers between ''C years'' and ''S years,'' shall apply for purposes of the tax imposed under subdivision (b), except as provided in paragraph (1).

(3) The provisions of this subdivision shall not affect the amount of any item of income or loss computed in accordance with the provisions of Section 1366 of the Internal Revenue Code, relating to passthrough items to shareholders.

(4) For purposes of subdivision (b) of Section 17276, relating to limitations on loss carryovers, losses passed through to shareholders of an ''S corporation,'' to the extent otherwise allowable without application of that subdivision, shall be fully included in the net operating loss of that shareholder and then that subdivision shall be applied to the entire net operating loss.

(e) For purposes of computing the taxes specified in subdivision (b), an ''S corporation'' shall be allowed a deduction from income for built-in gains and passive investment income for which a tax has been

imposed under this part in accordance with the provisions of Section 1374 of the Internal Revenue Code, relating to tax imposed on certain built-in gains, or Section 1375 of the Internal Revenue Code, relating to tax imposed on passive investment income.

(f) For purposes of computing taxes imposed under this part, as provided in subdivision (b)—

(1) An ''S corporation'' shall compute its deductions for amortization and depreciation in accordance with the provisions of Part 10 (commencing with Section 17001) of Division 2.

(2) The provisions of Section 465 of the Internal Revenue Code, relating to limitation of deductions to the amount at risk, shall be applied in the same manner as in the case of an individual.

(3) (A) The provisions of Section 469 of the Internal Revenue Code, relating to limitations on passive activity losses and credits, shall be applied in the same manner as in the case of an individual. For purposes of the tax imposed under Section 23151 or 23501, as modified by this section, material participation shall be determined in accordance with Section 469(h) of the Internal Revenue Code, relating to certain closely held ''C corporations'' and personal service corporations.

(B) For purposes of this paragraph, the ''adjusted gross income'' of the ''S corporation'' shall be equal to its ''net income,'' as determined under Section 24341 with the modifications required by this subdivision, except that no deduction shall be allowed for contributions allowed by Section 24357.

(4) The exclusion provided under Section 18152.5 shall not be allowed to an ''S corporation.''

(g) The provisions of Section 1363(d) of the Internal Revenue Code, relating to recapture of LIFO benefits, shall be modified for purposes of this part to refer to Section 19102 in lieu of Section 6601 of the Internal Revenue Code.

SEC. 31. Section 23813 of the Revenue and Taxation Code, as added by Section 18 of Chapter 610 of the Statues of 1997, is repealed.

SEC. 32. Section 24347.4 is added to the Revenue and Taxation Code, to read:

24347.4. (a) Section 165(i) of the Internal Revenue Code, relating to disaster losses, is modified to additionally provide that an appraisal for the purpose of obtaining a loan of federal funds or a loan guarantee from the federal government as a result of a presidentially declared disaster (as defined by Section 1033(h)(3) of the Internal Revenue Code) may be used to establish the amount of any loss described in Section 165(i)(1) or (2) of the Internal Revenue Code to the extent provided in regulations or other guidance of the Secretary of the Treasury under Section 165(i)(4) of the Internal Revenue Code (as added by Section 912 of Public Law 105-34).

(b) This section shall apply on and after August 5, 1997.

SEC. 33. Section 24416.2 of the Revenue and Taxation Code is amended to read:

24416.2. The term ‘‘qualified taxpayer’’ as used in Section 24416.1 means any of the following:

(a) A corporation engaged in the conduct of a trade or business within an enterprise zone designated pursuant to Chapter 12.8 (commencing with Section 7070) of Division 7 of Title 1 of the Government Code.

(1) A net operating loss shall not be a net operating loss carryback for any income year and a net operating loss for any income year beginning on or after the date that the area in which the taxpayer conducts a trade or business is designated as an enterprise zone shall be a net operating loss carryover to each of the 15 income years following the income year of loss.

(2) For purposes of this subdivision:

(A) ‘‘Net operating loss’’ means the loss determined under Section 172 of the Internal Revenue Code, as modified by Section 24416.1, attributable to the taxpayer’s business activities within the enterprise zone (as defined in Chapter 12.8 (commencing with Section 7070) of Division 7 of Title 1 of the Government Code) prior to the enterprise zone expiration date. That attributable loss shall be determined in accordance with Chapter 17 (commencing with Section 25101), modified for purposes of this section by substituting ‘‘enterprise zone’’ for ‘‘this state.’’

(B) A net operating loss carryover shall be a deduction only with respect to the taxpayer’s business income attributable to the enterprise zone (as defined in Chapter 12.8 (commencing with Section 7070) of Division 7 of Title 1 of the Government Code) determined in accordance with Chapter 17 (commencing with Section 25101), modified for purposes of this section by substituting ‘‘enterprise zone’’ for ‘‘this state.’’

(C) If a loss carryover is allowable pursuant to this section for any income year after the enterprise zone designation has expired, the enterprise zone shall be deemed to remain in existence for purposes of computing the limitation set forth in subparagraph (B) and allowing a net operating loss deduction.

(D) ‘‘Enterprise zone expiration date’’ means the date the enterprise zone designation expires, is no longer binding, or becomes inoperative.

(b) A corporation engaged in the conduct of a trade or business within the Los Angeles Revitalization Zone designated pursuant to Section 7102 of the Government Code.

(1) (A) A net operating loss shall not be a net operating loss carryback for any income year and, except as provided in subparagraph (B), a net operating loss for any income year beginning on or after the date the area in which the taxpayer conducts a trade or business is designated the Los Angeles

Revitalization Zone shall be a net operating loss carryover to each following income year that ends before the Los Angeles Revitalization Zone expiration date or to each of the 15 income years following the income year of loss, if longer.

(B) In the case of a financial institution to which Section 585, 586, or 593 of the Internal Revenue Code applies, a net operating loss for any income year beginning on or after January 1, 1984, shall be a net operating loss carryover to each of the five years following the income year of the loss. Subdivision (b) of Section 24416.1 shall not apply.

(2) For the purposes of this subdivision:

(A) ''Net operating loss'' means the loss determined under Section 172 of the Internal Revenue Code, as modified by Section 24416.1, attributable to the taxpayer's business activities within the Los Angeles Revitalization Zone (as defined in Section 7102 of the Government Code) prior to the Los Angeles Revitalization Zone expiration date. The attributable loss shall be determined in accordance with Chapter 17 (commencing with Section 25101), modified as follows:

(i) The loss shall be apportioned to the Los Angeles Revitalization Zone by multiplying the loss from the business by a fraction, the numerator of which is the property factor plus the payroll factor, and the denominator of which is two.

(ii) ''The Los Angeles Revitalization Zone'' shall be substituted for this state.

(B) A net operating loss carryover shall be a deduction only with respect to the taxpayer's business income attributable to the Los Angeles Revitalization Zone (as defined in Section 7102 of the Government Code) determined in accordance with paragraph (3).

(C) If a loss carryover is allowable pursuant to this section for any income year after the Los Angeles Revitalization Zone designation has expired, the Los Angeles Revitalization Zone shall be deemed to remain in existence for purposes of computing the limitation set forth in subparagraph (B) and allowing a net operating loss deduction.

(3) Attributable income shall be that portion of the taxpayer's California source business income which is apportioned to the Los Angeles Revitalization Zone. For that purpose, the taxpayer's business income attributable to sources in this state first shall be determined in accordance with Chapter 17 (commencing with Section 25101). That business income shall be further apportioned to the Los Angeles Revitalization Zone in accordance with Article 2 (commencing with Section 25120) of Chapter 17, modified as follows:

(A) Business income shall be apportioned to the Los Angeles Revitalization Zone by multiplying total California business income of the taxpayer by a fraction, the numerator of which is the property factor plus the payroll factor, and the denominator of which is two.

(B) The property factor is a fraction, the numerator of which is the average value of the taxpayer's real and tangible personal property owned or rented and used in the Los Angeles Revitalization Zone during the income year and the denominator of which is the average value of all the taxpayer's real and tangible personal property owned or rented and used in this state during the income year.

(C) The payroll factor is a fraction, the numerator of which is the total amount paid by the taxpayer in the Los Angeles Revitalization Zone during the income year for compensation, and the denominator of which is the total compensation paid by the taxpayer in this state during the income year.

(4) ''Los Angeles Revitalization Zone expiration date'' means the date the Los Angeles Revitalization Zone designation expires, is repealed, or becomes inoperative pursuant to Section 7102, 7103, or 7104 of the Government Code.

(5) This subdivision shall be inoperative on the first day of the income year beginning on or after the determination date, and each income year thereafter, with respect to the taxpayer's business activities within a geographic area that is excluded from the map pursuant to Section 7102 of the Government Code, or an excluded area determined pursuant to Section 7104 of the Government Code. The determination date is the earlier of the first effective date of a determination under subdivision (c) of Section 7102 of the Government Code occurring after December 1, 1994, or the first effective date of an exclusion of an area from the amended Los Angeles Revitalization Zone under Section 7104 of the Government Code. However, if the taxpayer has any unused loss amount as of the date this section becomes inoperative, that unused loss amount may continue to be carried forward as provided in this subdivision.

(6) This subdivision shall cease to be operative on January 1, 1998. However, any unused net operating loss may continue to be carried over to following years as provided in this subdivision.

(c) For each income year beginning on or after January 1, 1995, and before January 1, 2003, a taxpayer engaged in the conduct of a trade or business within a LAMBRA.

(1) (A) A net operating loss shall not be a net operating loss carryback for any income year and, except as provided in subparagraph (B), a net operating loss for any income year beginning on or after the date the area in which the taxpayer conducts a trade or business is designated a LAMBRA shall be a net operating loss carryover to each following income year that ends before the LAMBRA expiration date or to each of the 15 income years following the income year of loss, if longer.

(B) In the case of a financial institution to which Section 585, 586, or 593 of the Internal Revenue Code applies, a net operating loss for any income year beginning on or after January 1, 1984, shall be a net operating loss carryover to each of the five years following the

income year of the loss. Subdivision (b) of Section 24416.1 shall not apply.

(2) For the purposes of this subdivision:

(A) ''LAMBRA'' means a local agency military base recovery area designated in accordance with Section 7114 of the Government Code.

(B) ''Taxpayer'' means a corporation that conducts a trade or business within a LAMBRA and, for the first two income years, has a net increase in jobs (defined as 2,000 paid hours per employee per year) of one or more employees in the LAMBRA and this state.

(i) The net increase in the number of jobs shall be determined by subtracting the total number of full-time employees (defined as 2,000 paid hours per employee per year) the taxpayer employed in this state in the income year prior to commencing business operations in the LAMBRA from the total number of full-time employees the taxpayer employed in this state during the second income year after commencing business operations in the LAMBRA. For taxpayers who commence doing business in this state with their LAMBRA business operation, the number of employees for the income year prior to commencing business operations in the LAMBRA shall be zero. The deduction shall be allowed only if the taxpayer has a net increase in jobs in the state, and if one or more full-time employees is employed within the LAMBRA.

(ii) The total number of employees employed in the LAMBRA shall equal the sum of both of the following:

(I) The total number of hours worked in the LAMBRA for the taxpayer by employees (not to exceed 2,000 hours per employee) who are paid an hourly wage divided by 2,000.

(II) The total number of months worked in the LAMBRA for the taxpayer by employees who are salaried employees divided by 12.

(iii) In the case of a taxpayer that first commences doing business in the LAMBRA during the income year, for purposes of subclauses (I) and (II), respectively, of clause (ii) the divisors ''2,000'' and ''12'' shall be multiplied by a fraction, the numerator of which is the number of months of the income year that the taxpayer was doing business in the LAMBRA and the denominator of which is 12.

(C) ''Net operating loss'' means the loss determined under Section 172 of the Internal Revenue Code, as modified by Section 24416.1, attributable to the taxpayer's business activities within a LAMBRA prior to the LAMBRA expiration date. The attributable loss shall be determined in accordance with Chapter 17 (commencing with Section 25101), modified as follows:

(i) Loss shall be apportioned to a LAMBRA by multiplying the loss from the business by a fraction, the numerator of which is the property factor plus the payroll factor, and the denominator of which is two.

(ii) ''The LAMBRA'' shall be substituted for ''this state.''

(D) A net operating loss carryover shall be a deduction only with respect to the taxpayer's business income attributable to a LAMBRA determined in accordance with Chapter 17 (commencing with Section 25101), modified as follows:

(i) Business income shall be apportioned to a LAMBRA by multiplying total business income by a fraction, the numerator of which is the property factor plus the payroll factor, and the denominator of which is two.

(ii) ''The LAMBRA'' shall be substituted for ''this state.''

(iii) If a loss carryover is allowable pursuant to this section for any income year after the LAMBRA designation has expired, the LAMBRA shall be deemed to remain in existence for purposes of computing this limitation.

(E) ''LAMBRA expiration date'' means the date the LAMBRA designation expires, is no longer binding, or becomes inoperative pursuant to Section 7110 of the Government Code.

(d) (1) For each income year beginning on or after January 1, 1998, a corporation that meets both of the following:

(A) Is engaged in the conduct of a trade or business within a targeted tax area designated pursuant to Chapter 12.93 (commencing with Section 7097) of Division 7 of Title 1 of the Government Code.

(B) Is engaged in those lines of business described in Codes 2000 to 2099, inclusive; 2200 to 3999, inclusive; 4200 to 4299, inclusive; 4500 to 4599, inclusive; and 4700 to 5199, inclusive, of the Standard Industrial Classification (SIC) Manual published by the United States Office of Management and Budget, 1987 edition. In the case of any passthrough entity, the determination of whether a taxpayer is a qualified taxpayer shall be made at the entity level.

(2) A net operating loss shall not be a net operating loss carryback for any income year and a net operating loss for any income year beginning on or after the date that the area in which the qualified taxpayer conducts a trade or business is designated as a targeted tax area shall be a net operating loss carryover to each of the 15 income years following the income year of loss.

(3) For purposes of this subdivision:

(A) ''Net operating loss'' means the loss determined under Section 172 of the Internal Revenue Code, as modified by Section 24416.1, attributable to the qualified taxpayer's business activities within the targeted tax area (as defined in Chapter 12.93 (commencing with Section 7097) of Division 7 of Title 1 of the Government Code) prior to the targeted tax area expiration date. That attributable loss shall be determined in accordance with Chapter 17 (commencing with Section 25101), modified for purposes of this subdivision as follows:

(i) Loss shall be apportioned to the targeted tax area by multiplying total loss from the business by a fraction, the numerator

of which is the property factor plus the payroll factor, and the denominator of which is two.

(ii) ''The targeted tax area'' shall be substituted for ''this state.''

(B) A net operating loss carryover shall be a deduction only with respect to the qualified taxpayer's business income attributable to the targeted tax area (as defined in Chapter 12.93 (commencing with Section 7097) of Division 7 of Title 1 of the Government Code) determined in accordance with Chapter 17 (commencing with Section 25101), modified for purposes of this subdivision as follows:

(i) Business income shall be apportioned to the targeted tax area by multiplying the total business income by a fraction, the numerator of which is the property factor plus the payroll factor, and the denominator of which is two.

(ii) ''The targeted tax area'' shall be substituted for ''this state.''

(C) If a loss carryover is allowable pursuant to this subdivision for any income year after the targeted tax area expiration date, the targeted tax area designation shall be deemed to remain in existence for purposes of computing the limitation specified in this subparagraph.

(D) ''Targeted tax area expiration date'' means the date the targeted tax area designation expires, is revoked, is no longer binding, or becomes inoperative.

(e) A taxpayer who qualifies as a ''qualified taxpayer'' shall, for the income year of the net operating loss and any income year to which that net operating loss may be carried, designate on the original return filed for each year the subdivision of this section which applies to that taxpayer with respect to that net operating loss. If the taxpayer is eligible to qualify under more than one subdivision of this section, the designation is to be made after taking into account subdivision (f).

(f) If a taxpayer is eligible to qualify under more than one subdivision of this section as a ''qualified taxpayer,'' with respect to a net operating loss in an income year, the taxpayer shall designate which subdivision of this section is to apply to the taxpayer.

(g) Notwithstanding Section 24416, the amount of the loss determined under this section shall be the only net operating loss allowed to be carried over from that income year and the designation under subdivision (e) shall be included in the election under Section 24416.1.

SEC. 34. Section 24652.5 is added to the Revenue and Taxation Code, to read:

24652.5. (a) (1) Section 447(i)(3) of the Internal Revenue Code, relating to reduction in account if farming business contracts, shall not apply.

(2) Section 447(i)(4) of the Internal Revenue Code, relating to income inclusions, shall not apply.

(3) (A) No suspense account may be established under Section 447(i) of the Internal Revenue Code, relating to suspense account for family corporations, by any corporation required by Section 447 of the Internal Revenue Code, relating to method of accounting for corporations engaged in farming, to change its method of accounting for any income year ending after June 8, 1997.

(B) (i) Each suspense account under Section 447(i) of the Internal Revenue Code shall be reduced (but not below zero) for each income year beginning after June 8, 1997, by an amount equal to the lesser of:

(I) The applicable portion of the account.

(II) Fifty percent of the net income of the corporation for the income year, or, if the corporation has no net income for that year, the amount of any net operating loss (as defined in Section 172 of the Internal Revenue Code and as modified for purposes of this part) for that income year.

For purposes of the preceding sentence, the amount of net income and net operating loss shall be determined without regard to this paragraph.

(ii) The amount of the applicable portion for any income year shall be reduced (but not below zero) by the amount of any reduction required for the income year under any other provision of Section 447(i) of the Internal Revenue Code.

(iii) Any reduction in a suspense account under this paragraph shall be included in gross income for the income year of the reduction.

(C) For purposes of subparagraph (B), the term ''applicable portion'' means, for any income year, the amount which would ratably reduce the amount in the account (after taking into account prior reductions) to zero over the period consisting of that income year and the remaining income years in those first 20 income years.

(D) Any amount in the account as of the close of that 20th year referred to in subparagraph (C) shall be treated as the applicable portion for each succeeding year thereafter to the extent not reduced under this paragraph for any prior income year after the 20th year.

(b) This section shall apply to income years ending on or after December 31, 1997.

SEC. 35. Section 24661.5 is added to the Revenue and Taxation Code, to read:

24661.5. (a) Section 451(e) of the Internal Revenue Code, relating to special rule for proceeds from livestock sold on account of drought, is modified by substituting the phrase ''drought, flood, or other weather-related conditions, and that those conditions'' in lieu of the phrase ''drought conditions, and that these drought conditions'' contained therein.

(b) This section shall apply to sales and exchanges after December 31, 1996.

SEC. 36. Section 24871.5 is added to the Revenue and Taxation Code, to read:

24871.5. (a) Section 851(b)(3) of the Internal Revenue Code shall not apply.

(b) This section shall apply in determining whether an entity qualifies as a regulated investment company for income years of that entity beginning after August 5, 1997.

SEC. 37. Section 24872.4 is added to the Revenue and Taxation Code, to read:

24872.4. (a) (1) Section 856(a)(6) of the Internal Revenue Code is modified by substituting the phrase ''subject to the provisions of paragraph (2), which is not'' for the phrase ''which is not.''

(2) Section 856 of the Internal Revenue Code is modified to additionally provide that a corporation, trust, or association that meets both of the following requirements, shall be treated as having met the requirement of Section 856(a)(6) of the Internal Revenue Code for the income year:

(A) For an income year that meets the requirements of paragraph (2) of subdivision (a) of Section 24872.7.

(B) Does not know, or exercising reasonable diligence would not have known, whether the entity failed to meet the requirement of Section 856(a)(6) of the Internal Revenue Code.

(b) (1) Section 856(d)(2)(C) of the Internal Revenue Code shall not apply.

(2) Section 856(d)(2) of the Internal Revenue Code is modified to additionally provide that the term ''rents from real property'' does not include ''impermissible tenant service income.''

(A) The term ''impermissible tenant service income'' means, with respect to any real or personal property, any amount received or accrued directly or indirectly by the real estate investment trust for either of the following:

(i) Services furnished or rendered by the trust to the tenants of the property.

(ii) Managing or operating that property.

(B) If the amount described in subparagraph (A) with respect to a property for any income year exceeds one percent of all amounts received or accrued during the income year directly or indirectly by the real estate investment trust with respect to that property, the impermissible tenant service income of the trust with respect to the property shall include all those amounts.

(C) For purposes of subparagraph (A):

(i) Services furnished or rendered, or management or operation provided, through an independent contractor from whom the trust itself does not derive or receive any income shall not be treated as furnished, rendered, or provided by the trust.

(ii) There shall not be taken into account any amount which would be excluded from unrelated business taxable income under

Section 512(b)(3) of the Internal Revenue Code if received by an organization described in subdivision (b) of Section 17651 of Part 10 or Section 23731.

(D) For purposes of subparagraph (A), the amount treated as received for any service (or management or operation) shall not be less than 150 percent of the direct cost of the trust in furnishing or rendering the service (or providing the management or operation).

(E) For purposes of Sections 856(c)(2) and (3) of the Internal Revenue Code, amounts described in subparagraph (A) shall be included in the gross income of the corporation, trust, or association.

(c) (1) Section 856(d)(5) of the Internal Revenue Code, relating to constructive ownership of stock, is modified to additionally provide that in determining the ownership of stock under Section 318(a) of the Internal Revenue Code, Section 318(a)(3)(A) of the Internal Revenue Code shall be applied in the case of a partnership by taking into account only partners who own (directly or indirectly) 25 percent or more of the capital interest, or the profits interest, in the partnership.

(d) Section 856(e) of the Internal Revenue Code, relating to special rules for foreclosure property, is modified as follows:

(1) By substituting in Section 856(e)(2) of the Internal Revenue Code the phrase ''as of the close of the third income year following the income year in which the trust acquired such property'' for the phrase ''on the date which is two years after the date the trust acquired such property.''

(2) By substituting in Section 856(e)(3) of the Internal Revenue Code.

(A) The phrase ''one extension'' for the phrase ''one or more extensions.''

(B) The phrase ''beyond the close of the third income year following the last income year in the period under Section 856(e)(2) of the Internal Revenue Code'' for the phrase ''beyond the date which is six years after the date such trust acquired such property.''

(3) Section 856(e)(4) of the Internal Revenue Code is modified to additionally provide that for purposes of Section 856(e)(4)(C) of the Internal Revenue Code, property shall not be treated as used in a trade or business by reason of any activities of the real estate investment trust with respect to that property to the extent that those activities would not result in amounts received or accrued, directly or indirectly, with respect to that property being treated as other than rents from real property.

(4) (A) The last sentence in Section 856(e)(5) of the Internal Revenue Code shall not apply.

(B) (i) An election under Section 856(e)(5) of the Internal Revenue Code (as amended by Section 1257 of the Public Law 105-34) for federal purposes shall be treated for purposes of this part as an election made by the real estate investment trust under this

subdivision and a separate election under paragraph (3) of subdivision (e) of Section 23051.5 shall not be allowed.

(ii) Any revocation of an election under Section 856(e)(5) of the Internal Revenue Code (as amended by Section 1257 of Public Law 105-34) for federal purposes shall be treated for purposes of this part as a revocation of the election made by the real estate investment trust under this subdivision and a separate election under paragraph (3) of subdivision (e) of Section 23051.5 shall not be allowed with respect to the property for any subsequent income year.

(e) Section 856(i)(2) of the Internal Revenue Code, relating to qualified REIT subsidiary, is modified by substituting the phrase ''is held by the real estate investment trust'' for the phrase ''is held by the real estate investment trust at all times during the period such corporation was in existence.''

(f) (1) Section 856(j) of the Internal Revenue Code, relating to treatment of shared appreciation mortgages, is modified to additionally provide that for purposes of Section 857(b)(6)(C) of the Internal Revenue Code, if a real estate investment trust is treated as having sold secured property under Section 856(j)(3)(A) of the Internal Revenue Code, the trust shall be treated as having held the property for at least four years if all of the following apply:

(A) The secured property is sold or otherwise disposed of pursuant to a case under title 11 of the United States Code.

(B) The seller is under the jurisdiction of the court in that case.

(C) The disposition is required by the court or is pursuant to a plan approved by the court.

(2) Paragraph (1) shall not apply if either of the following applies:

(A) The secured property was acquired by the seller with the intent to evict or foreclose.

(B) The trust knew or had reason to know that default on the obligation described in Section 856(j)(4)(A) of the Internal Revenue Code would occur.

(g) Section 856(j)(4)(A)(ii) of the Internal Revenue Code is modified to read ''which entitles the real estate investment trust to receive a specified portion of any gain realized on the sale or exchange of that real property (or of any gain which would be realized if the property were sold on a specified date) or appreciation in value as of any specified date.''

(h) This section shall apply to income years beginning after August 5, 1997.

SEC. 38. Section 24872.5 is added to the Revenue and Taxation Code, to read:

24872.5. (a) Section 856(c)(4) of the Internal Revenue Code shall not apply.

(b) (1) Section 856(c)(6)(G) of the Internal Revenue Code shall not apply and in lieu thereof paragraph (2) shall apply.

(2) Except to the extent provided by regulations of the Secretary of the Treasury under Section 856(c)(5)(G) of the Internal Revenue Code (as redesignated and amended by Public Law 105-34), both of the following shall be treated as income qualifying under Section 856(c)(2) of the Internal Revenue Code:

(A) Any payment to a real estate investment trust under an interest rate swap or cap agreement, option, futures contract, forward rate agreement, or any similar financial instrument, entered into by the trust in a transaction to reduce the interest rate risks with respect to any indebtedness incurred or to be incurred by the trust to acquire or carry real estate assets.

(B) Any gain from the sale or other disposition of any such investment.

(c) This section shall apply in determining whether an entity qualifies as a real estate investment trust for income years of that entity beginning after August 5, 1997.

SEC. 39. Section 24872.7 is added to the Revenue and Taxation Code, to read:

24872.7. (a) (1) Section 857(a)(2) of the Internal Revenue Code shall not apply.

(2) Section 857 of the Internal Revenue Code is modified to additionally provide that each real estate investment trust shall for each income year comply with regulations prescribed by the Secretary of the Treasury under Section 857(f) of the Internal Revenue Code (as added by Section 1251 of Public Law 105-34) for the purposes of ascertaining the actual ownership of the outstanding shares, or certificates of beneficial interest, of that trust.

(3) (A) Whenever a penalty is imposed under Section 857(f)(2)(A) or (B) of the Internal Revenue Code (as added by Public Law 105-34), whichever is applicable, it shall be deemed that the real estate investment trust has failed to comply with the requirements of paragraph (2) for that income year and a penalty equal to the penalty determined under Section 857(f)(2)(A) or (B) of the Internal Revenue Code (as added by Public Law 105-34), whichever is applicable, shall be imposed and shall be paid on notice and demand and in the same manner as tax.

(B) No penalty shall be imposed under this paragraph if the Secretary of the Treasury, under Section 857(f)(2)(D) of the Internal Revenue Code (as added by Public Law 105-34), has determined that the failure to comply is due to reasonable cause and not to willful neglect.

(4) (A) Whenever a penalty is imposed under Section 857(f)(2)(C) of the Internal Revenue Code (as added by Public Law 105-34) it shall be deemed that the real estate investment trust has failed to comply with the requirements of paragraph (2) for that income year and an additional penalty equal to the penalty determined under Section 857(f)(2)(C) of the Internal Revenue

Code (as added by Public Law 105-34) shall be imposed and shall be paid on notice and demand and in the same manner as tax.

(B) No penalty shall be imposed under this paragraph if the Secretary of the Treasury, under Section 857(f)(2)(D) of the Internal Revenue Code (as added by Public Law 105-34), has determined that the failure to comply is due to reasonable cause and not to willful neglect.

(b) Section 857(b)(6)(C)(iii) of the Internal Revenue Code is modified by substituting the phrase ''(other than sales of foreclosure property or sales to which Section 1033 of the Internal Revenue Code applies)'' for the phrase ''(other than foreclosure property)'' in each place in which it appears.

(c) Section 857(d) of the Internal Revenue Code is modified to additionally provide that any distribution which is made in order to comply with the requirements of Section 857(a)(3)(B) of the Internal Revenue Code:

(1) Shall be treated for purposes of Section 857(d) of the Internal Revenue Code and Section 857(a)(3)(B) of the Internal Revenue Code as made from the earliest accumulated earnings and profits (other than earnings and profits to which Section 857(a)(3)(A) of the Internal Revenue Code applies) rather than the most recently accumulated earnings and profits.

(2) To the extent treated under paragraph (1) as made from accumulated earnings and profits, shall not be treated as a distribution for purposes of Section 857(b)(2)(B) of the Internal Revenue Code.

(d) (1) Section 857(e)(2)(B) of the Internal Revenue Code shall not apply.

(2) Section 857(e)(2) of the Internal Revenue Code is modified to additionally provide that the amount determined under that paragraph shall include the amount (if any) by which the amounts includible in gross income with respect to instruments to which Section 860E(a) or 1272 of the Internal Revenue Code applies, exceed the amount of money and the fair market value of other property received during the income year under those instruments.

(3) Section 857(e)(2) of the Internal Revenue Code is modified to additionally provide that the amount determined under that paragraph shall include amounts includible in income by reason of cancellation of indebtedness.

(e) This section shall apply to income years beginning after August 5, 1997.

SEC. 40. Section 24875.5 is added to the Revenue and Taxation Code, to read:

24875.5. (a) Section 860L(b)(1)(A) of the Internal Revenue Code is modified by substituting the phrase ''on or after the startup date'' for the phrase ''after the startup date.''

(b) Section 860L(d)(2) of the Internal Revenue Code is modified by substituting a reference to Section 860I(b)(2) of the Internal Revenue Code in lieu of the reference to Section 860I(c)(2) of the Internal Revenue Code.

(c) This section shall apply on and after September 1, 1997.

SEC. 41. Section 24918 of the Revenue and Taxation Code is amended to read:

24918. (a) Section 1017 of the Internal Revenue Code, relating to discharge of indebtedness, shall apply, except as otherwise provided. References to affiliated groups which file a consolidated return under Section 1501 of the Internal Revenue Code shall be treated as meaning members of the same unitary group which file a combined report under Article 1 (commencing with Section 25101) of Chapter 17.

(b) The amendments to Section 1017 of the Internal Revenue Code made by Section 13150 of the Revenue and Reconciliation Act of 1993 (Public Law 103-66), relating to modifications of discharge of indebtedness provisions, shall apply to discharges occurring on or after January 1, 1996, in income years beginning on or after January 1, 1996.

SEC. 42. Section 24949.1 is added to the Revenue and Taxation Code, to read:

24949.1. (a) Section 1033(e) of the Internal Revenue Code, relating to livestock sold on account of drought, is modified by substituting the phrase ‘‘on account of drought, flood, or other weather-related conditions’’ in lieu of the phrase ‘‘on account of drought’’ contained therein.

(b) This section shall apply to sales and exchanges after December 31, 1996.

SEC. 43. Section 24954 of the Revenue and Taxation Code, as added by Section 20 of Chapter 610 of the Statutes of 1997, is repealed.

SEC. 44. Section 110 of Chapter 605 of the Statutes of 1997 is amended to read:

Sec. 110. The Legislature finds and declares all of the following:

(a) Except as otherwise provided in subdivision (b), Section 112 or Section 114 of this act, the amendments to Sections 18402, 18604, 18606, 18621.5, 18637, 18638, 18662, 18670, 19009, 19011, 19023, 19024, 19058, 19132.5, 19141.5, 19141.6, 19147, 19164, 19192, 19254, 19263, 19301, 19392, 19411, 19542, 19563, 19701, 19705, 19706, 19719, 23037, 23038, 23040.1, 23095, 23098, 23151, 23151.1, 23151.2, 23153, 23303, 23305.2, 23334, 23455, 23501, 23610.5, 23612.6, 23623.5, 23625, 23645, 23646, 23731, 24346, 24356.4, 24356.8, 24357, 24358, 24359, 24402, 24407, 24408, 24409, 24411, 24416, 24416.2, 24677, 24678, 24901, 24912, 24916, 24917, 24942, 25105, 25110, 25111, 25112, and 25128 of the Revenue and Taxation Code are consistent with the intent of the acts enacting those sections, and as such shall apply from the original effective dates of those acts.

(b) The amendments to Sections 17052.15, 17053.45, 17053.46, 23612.6, 23645, and 23646 of the Revenue and Taxation Code made by this act that relate to the election of the credit to be claimed are consistent with the intent of the Los Angeles Revitalization Zone Act and the Local Military Base Recovery Area Act, and as such shall apply from the original effective dates of those acts.

(c) This act repeals Sections 23184, 23184.5, 23185, 23185a, and 23185b of the Revenue and Taxation Code which have been obsolete since January 1, 1981, when the provisions of Chapter 1150 of the Statutes of 1979 took effect, providing financial corporations with the same taxation treatment as banks, thereby prohibiting the imposition of personal property taxes or business license taxes on financial corporations by local jurisdictions. The repeal made by this act shall not affect any act done or any right accruing or accrued, or any suit, appeal, or other proceeding that commenced under Section 23184, 23184.5, 23185, 23185a, or 23185b of the Revenue and Taxation Code before that repeal.

SEC. 45. Section 112 of Chapter 605 of the Statutes of 1997 is amended to read:

Sec. 112. For purposes of the definition of ''qualifying dividends'' in subdivision (a) of Section 24411 of the Revenue and Taxation Code, the term ''corporation'' shall include banks only for income years beginning on or after January 1, 1998.

SEC. 46. Section 19 is added to Chapter 609 of the Statutes of 1997, to read:

Sec. 19. Sections 3, 6, 8, and 10 of this act shall become operative on January 1, 1997.

SEC. 47. Section 30 of Chapter 611 of the Statutes of 1997 is amended to read:

Sec. 30. Section 17267 of the Revenue and Taxation Code as enacted by Chapter 954 of the Statutes of 1996 is repealed.

SEC. 48. The Legislature finds and declares that the amendments to Sections 17053.47 and 23622.8 of the Revenue and Taxation Code by this act are consistent with the intent of the act enacting those sections, and shall apply from the original effective dates of that act.

SEC. 49. Except for paragraph (1) of subdivision (c) of Section 17062, the amendments to Section 17062 of the Revenue and Taxation Code made by this act shall apply to taxable years beginning on or after January 1, 1998. Paragraph (1) of subdivision (c) of Section 17062 shall apply to taxable years beginning on or after January 1, 1997.

SEC. 50. The amendments to Sections 19023, 19024, 19025, 19136.3, 19147, 19149, 23456, and 23800.5, as added by Section 72 of Chapter 611 of the Statutes of 1997, of the Revenue and Taxation Code made by this act shall apply to taxable or income years beginning on or after January 1, 1997.

SEC. 51. The repeal of Section 17731.5, as added by Section 3 of Chapter 610 of the Statutes of 1997, Section 19365, as added by Section 9 of Chapter 610 of the Statutes of 1997, Section 23800.5, as added by Section 11 of Chapter 610 of the Statutes of 1997, Section 23813, as added by Section 18 of Chapter 610 of the Statutes of 1997, and Section 24954, as added by Section 20 of Chapter 610 of the Statutes of 1997, of the Revenue and Taxation Code by this act shall be operative on January 1, 1997.

SEC. 52. This act provides for a tax levy within the meaning of Article IV of the Constitution and shall go into immediate effect.

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